

**National Interest Analysis [2010] ATNIA 51**

**with attachment on consultation**

**Agreement between  
the Government of Australia and the Government of Samoa  
on the Exchange of Information with Respect to Taxes,  
done at Canberra on 16 December 2009**

**[2009] ATNIF 32**



## NATIONAL INTEREST ANALYSIS: CATEGORY 2 TREATY

### SUMMARY PAGE

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#### **Nature and timing of proposed treaty action**

1. The proposed treaty action is to bring the *Agreement between the Government of Australia and the Government of Samoa on the Exchange of Information with Respect to Taxes* (the Agreement) into force.
2. Pursuant to Article 13, the Agreement will enter into force on the last day of notification between Australia and Samoa establishing that the necessary domestic procedures for entry into force have been completed. The proposed Agreement will then have effect:
  - from 1 July 2010 with respect to criminal tax matters; and
  - from 1 July 2010 with respect to civil tax matters, but only relating to taxable periods beginning on or after that date or, where there is no taxable period, charges to tax arising on or after that date.

#### **Overview and national interest summary**

3. The key objective of the proposed Agreement, commonly referred to as a Tax Information Exchange Agreement (TIEA), is to establish a legal basis for the exchange of tax information relating to certain persons and other entities between the Governments of Australia and Samoa.
4. The proposed Agreement will help Australia protect its revenue base by allowing the Commissioner of Taxation to request and receive certain information held in Samoa and will help improve the integrity of the tax system by discouraging tax evasion by individuals and other entities. The proposed Agreement also incorporates a number of important safeguards to protect the legitimate interests of taxpayers, including requirements in relation to confidentiality and legal privilege.
5. The proposed Agreement is one of 25 TIEAs signed by Australia with low-tax jurisdictions, six of which have entered into force. The proposed Agreement with Samoa is a part of Australia's efforts to conclude TIEAs with jurisdictions that have committed to work with member countries of the Organisation for Economic Cooperation and Development (OECD) to improve transparency and establish effective procedures for the exchange of tax information.

## **Reasons for Australia to take the proposed treaty action**

6. The proposed Agreement, alongside TIEAs with other countries, is an important tool in Australia's efforts to combat offshore tax evasion. The proposed Agreement provides for the effective exchange of information between Australia and Samoa, which will promote fairness and enhance Australia's ability to administer and enforce its domestic tax laws.
7. The proposed Agreement is part of Australia's ongoing commitment to the OECD's work on eliminating harmful tax practices that contribute to international tax avoidance and evasion. Australia has taken a leadership role in this work and is currently the Chair of the Global Forum on Transparency and Exchange of Information for Tax Purposes, which has a membership of more than 90 countries.
8. Since 2002, more than 40 low-tax jurisdictions, including Samoa, have publicly committed to the implementation of OECD standards of transparency and information exchange for tax purposes, which have been endorsed by both the United Nations and the G-20. These standards, when implemented, help to ensure the availability of information needed by tax authorities to determine a taxpayer's correct tax liability. TIEAs are the key bilateral means that facilitate the provision of such information by low-tax jurisdictions.
9. In April 2002, the OECD released a model TIEA to facilitate negotiations between OECD member countries and committed jurisdictions. In October 2003, the then Australian Treasurer approved an Australian model TIEA which is closely aligned to the OECD model. The Australian model TIEA was subsequently approved by the current Australian Government. The proposed Agreement with Samoa essentially follows the format of the Australian model TIEA.
10. Data held by the Australian Transaction Reports and Analysis Centre (AUSTRAC) indicates a significant flow of funds between Australia and Samoa. While most financial flows to and from low-tax jurisdictions are legitimate, the legal frameworks and systems that make low-tax jurisdictions attractive for legitimate purposes may also be used in arrangements designed to evade paying tax elsewhere. In particular, the use of secrecy laws to conceal assets and income that are subject to Australian tax is of concern to Australia.
11. It is in Australia's interest to develop a network of TIEAs with low-tax jurisdictions. The proposed Agreement, along with existing and future TIEAs, will make it harder for taxpayers to avoid or evade Australian tax and discourage those taxpayers from participating in illegitimate tax arrangements by increasing the probability of detection. This will help Australia protect its revenue base and improve the integrity of the tax system while enhancing Samoa's reputation as a location for legitimate business activity.
12. Samoa's commitment to implement the proposed Agreement is a positive step in its relationship with Australia. The OECD has identified Samoa as a jurisdiction that has committed to and substantially implemented the internationally agreed tax standard on the exchange of information.

## **Obligations**

13. Article 5(1) of the proposed Agreement obliges the competent authorities of the Contracting States to provide, on request, information that is foreseeably relevant to the administration and enforcement of the other Party's domestic tax laws, including the collection of taxes and the investigation or prosecution of tax matters. A request for information must be in writing and contain the details required by Article 5(5). This obligation applies irrespective of whether the conduct being investigated would constitute a crime under the domestic law of the Requested Party if it occurred in the territory of that Party.
14. Article 5(2) provides that where the information in the possession of the Requested State is insufficient to enable compliance with a request, the Requested State must use its information gathering powers to obtain and provide the information, even if it is not needed for the Requested

State's domestic tax purposes. This is consistent with Article 26 (Exchange of Information) of the OECD *Model Convention with Respect to Taxes on Income and on Capital*, which has been incorporated into Australia's tax treaty policy.

15. Article 5(3) requires the provision of information in the form of depositions of witnesses and authenticated copies of original records, to the extent allowable under the laws of the Requested Party. This is intended to assist the Applicant State to satisfy evidentiary requirements in domestic tax proceedings.

16. Article 5(4) obliges each Contracting State to ensure its competent authority has the authority to obtain and provide information held by banks, other financial institutions and any person acting in an agency or fiduciary capacity, as well as information regarding the legal and beneficial ownership of companies and partnerships and certain persons involved with trusts and foundations. The Commissioner of Taxation currently has the necessary legal authority to meet Australia's obligations under Article 5(4).

17. Article 5(6) obliges the Contracting State to acknowledge receipt of requests for information and to provide the requested information as promptly as possible.

18. Article 6 provides that one Contracting State may, on request, permit interviews with individuals and the examination of records within its jurisdiction by officials of the other Contracting State, with the written consent of the persons concerned.

19. Article 7 provides various grounds for the refusal of requests, including where requests are not in conformity with the proposed Agreement or if the Applicant State would be unable to obtain the requested information under its own laws.

20. Article 8 obliges the Contracting States to keep information received under the proposed Agreement confidential. Such information may be disclosed only to persons or authorities concerned with the administration or enforcement of taxation covered by the proposed Agreement and may only be used for such purposes, although this may include public court proceedings or in judicial decisions. The express written consent of the competent authority of the Requested Party is required for the disclosure of the requested information to any other person, entity, authority or jurisdiction.

21. Article 9 obliges the Requested State to bear ordinary costs associated with responding to requests for information, while extraordinary costs are to be borne by the Applicant State, unless the Contracting States otherwise agree. As discussed in paragraph 27 below, the Parties are negotiating standing arrangements for costs.

22. Article 11 obliges each Contracting States to refrain from imposing prejudicial or restrictive measures on residents or nationals of either Contracting States on the basis that the other Contracting State does not engage in effective exchange of information and/or because it lacks transparency in the operation of its laws, regulations or administrative practices. A prejudicial or restrictive measure includes the denial of a deduction, credit or exemption, the imposition of a tax, or special reporting requirements.

23. Article 12 requires the Contracting States to jointly endeavour to resolve difficulties or doubts concerning the interpretation or application of the proposed Agreement and provides that they may also decide upon other forms of dispute resolution.

## **Implementation**

24. Australia is able to fulfil its obligations under the proposed Agreement under existing legislation, specifically, section 23 of the *International Tax Agreements Act 1953*. While Article 10 requires the Contracting States to implement legislation necessary to give affect to the proposed Agreement, no further legislation or regulation is required in order to implement the Agreement.

25. The implementation of the proposed Agreement will not affect the existing roles of the Commonwealth or the States and Territories in tax matters.

### **Costs**

26. The Agreement will have a small administrative and financial impact on the Australian Taxation Office (ATO). As Samoa is unlikely to routinely need Australian information for its own tax purposes, it is likely that most requests for information will originate from Australia. Some additional resources may be required so that the ATO may provide technical assistance to Samoa in relation to its exchange of information procedures, if necessary.

27. The ATO and the relevant competent authority of Samoa have signed a Memorandum of Understanding, under which certain costs associated with Australian requests for information will be borne by the ATO. Examples of such costs, classified as extraordinary costs, include:

- reasonable fees charged by third parties for carrying out research;
- reasonable fees charged by third parties for copying documents;
- reasonable costs of engaging experts, interpreters or translators;
- reasonable costs of conveying documents to the Requesting State;
- reasonable litigation costs of the Requested State in relation to a specific request for information; and
- reasonable costs of obtaining depositions or testimony.

28. Australian residents are unlikely to incur significant compliance costs in relation to the proposed Agreement. It is unlikely Australia will receive many requests for information from Samoa and therefore be required to collect information from Australian residents.

29. Overall, it is estimated that the administrative and financial impact of the proposed Agreement will be absorbed by the ATO's existing exchange of information programme, which currently administers similar arrangements with more than 40 countries. On a broader level, as the proposed Agreement is intended to help reduce tax avoidance and evasion by Australian taxpayers, it could result in the generation of additional revenue for Australia.

### **Regulation Impact Statement**

30. The Treasury has assessed the implementation of the Agreement against criteria in the *Best Practice Regulation Handbook* and concluded that this regulatory option has no/low impact on businesses and individuals or on the economy. The Office of Best Practice Regulation has been consulted and confirms that a Regulation Impact Statement is not required.

### **Future treaty action**

31. The proposed Agreement does not provide for amendments or for the negotiation of future legally binding instruments. In the absence of specific procedures, the Parties may amend the proposed Agreement by mutual consent at any time, pursuant to Article 39 of the *Vienna Convention on the Law of Treaties 1969*. Any future amendments would be subject to Australia's domestic treaty-making process, including tabling and consideration by the Joint Standing Committee on Treaties (JSCOT). Any such amendments to the proposed Agreement may be considered in line with Australian policy for TIEA negotiations current at that time.

### **Withdrawal or denunciation**

32. Article 14 provides that the proposed Agreement shall remain in force indefinitely, but either of the Contracting States may, after the expiration of three years from the date of its entry into force, provide written notice of termination to the other Contracting State through diplomatic channels. Termination would take effect on the first day of the month following the expiration of a period of six months after the date of receipt of the notice of termination by the other Contracting State. However, both Contracting States would remain bound by the confidentiality obligations

contained in Article 8. This ensures the continued protection of information exchanged under the proposed Agreement between the two Contracting States.

33. Termination of the proposed Agreement by Australia would be subject to Australia's domestic treaty-making process, including tabling and consideration by JSCOT.

**Contact details**

International Tax and Treaties Division  
Department of the Treasury.



## **ATTACHMENT ON CONSULTATION**

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### **CONSULTATION**

34. The proposed Agreement addresses only administrative matters, namely facilitating the full exchange of information between tax authorities. Accordingly, the public was not consulted.

35. The ATO was involved in the negotiation of the proposed Agreement and will administer it. Given that the proposed Agreement aligns with the international standard on tax information exchange and with Australia's recent bilateral tax treaty practice, the ATO was supportive of the proposed treaty action.

36. In addition to the Assistant Treasurer, the Minister for Foreign Affairs, the Minister for Trade and the Prime Minister have approved the proposed treaty action.