Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

29 May – 31 May 2012

Question: BET 280-293

Topic: Investments – Managed Investment Trust Withholding Tax

Hansard Page: Written

Senator BUSHBY asked:

280. The Treasury revenue measure in Budget Paper 2 'International tax - increase in managed investment trust final withholding tax rate' was first announced in the 2012-13 Budget, is that correct?

281. Was industry consulted on this measure before it was announced in the Budget?

282. How much revenue is currently collected at the 7.5 rate?

283. Have revenue collections increased or decreased over the period the rate was reduced from 30-7.5%?

284. Has the level of foreign investment to which this measure relates increased over the same period?

285. The measure is due to raise $50 million in revenue in the 2012-13 financial year, $65 million in 2013-14 and then revenue increases by $5 million each year thereafter. Do Treasury's forecasts factor in any change in investment behavior by overseas investors as a result of this Budget measure?

     If not, why not?

286. Why was the rate raised to 15%?

287. How does this rate compare to WHT rates applied to other types of income?

288. Will a 15% rate in particular incentivise taxpayers to restructure their investments?

     If so has this been factored into the costings?

289. Was the impact on the domestic property sector assessed ahead of announcing this measure?

290. Has there been any estimate of the likely lower land tax and stamp duty collections?

291. Is Treasury aware of any investments which have been unwound/frozen as a result of the announcement?

293. Is Treasury aware that this higher tax will also apply to a range of clean energy investments?

     If so, how does the Government reconcile this measure with Australia's desire to develop a clean energy future?

292. How does Treasury reconcile this measure with Australia's need for infrastructure funding?

Answer:

280

Yes.

281

Refer to evidence given to the House of Representatives Standing Committee on Economics on 4 June 2012 and at the Senate Economics Legislation Committee – Estimates on 30 May 2012 (page 39).

> Mr McDonald: The first is that consultation on budget measures is a matter for the government. The second point, which is related to the first, is that it has not been government practice to consult on budget measures.

282

Information on the amount of Managed Investment Trust withholding tax collected at the concessional rate is not separately identifiable in data reported to the ATO.

283

Page 29 of Budget Paper 2 from the 2008-09 Budget shows that revenue was expected to fall as a result of lowering the MIT withholding rate to 7.5 per cent.

284

The Australian Bureau of Statistics does not report on the level of foreign investment in real estate in Australia through MITs.

285 and 288

Refer to response provided to BET 107.

286

The Government announcement stated that the 15 per cent rate better balances the need for Australia to be an attractive destination for foreign investment with ensuring Australia receives a fair return for investments in Australia.

The 15 per cent withholding tax rate is in line with the Government's original 2007 election commitment. This rate is competitive with current rates applying in other countries and is significantly lower than the 30 per cent non-final withholding rate under the previous government.

287

Franked Dividends – 0% (in effect this means that corporate tax rate of 30% is a final withholding tax for non-resident equity investors in Australian companies).

Unfranked Dividends - 30% (typically reduced under treaties – the reduced rate varies from treaty to treaty and depends on the circumstances).

Interest - 10% (the same under treaties but some exemptions apply).

Royalties - 30% (typically reduced under treaties - the reduced rate varies from treaty to treaty).

289, 292-293

As discussed in *Australia's Future Tax System*, location specific rents (immobile capital) such as those affected by this measure are not sensitive to changes in tax rates and therefore tax discounting is not needed to attract investment.

Therefore the impact of a tax increase is expected to have little impact on the aggregate level of capital investment in the domestic property or infrastructure sectors.

The introduction of a 10 per cent withholding rate for clean building managed investment trusts is designed to encourage investment in new energy efficient buildings.

290

Refer to evidence given to the House of Representatives Standing Committee on Economics on 4 June 2012 and at the Senate Economics Legislation Committee – Estimates on 30 May 2012 (page 38).

> Mr McDonald: ….The federal budget is prepared on the basis of federal government revenue, so it would not take into account— as a matter of standard methodology—the impact, if any, on state or local government revenues.

291

Refer to evidence given to the Senate Economics Legislation Committee – Estimates on 30 May 2012 at page 84:

Mr T McDonald: I am certainly aware that subsequent to the budget announcement industry have made a number of statements talking about the impact on investment and mentioned a number of different figures. Without wishing to put words in their mouth or to be critical of them, it is not always clear exactly what proposals they are talking about when they talk about investments being affected in this area. It is clear and there are certainly media reports that the purchase and sale of existing assets that were currently under negotiation have been affected by the budget announcement.