

WITHHOLDING TAX : AMENDMENTS TO TAX LAW

Statement by the Prime Minister, Mr. John Gorton

The Government has consistently emphasised the importance to Australia of a strong and continuing inflow of overseas development capital. We have equally emphasised the need to retain and increase Australian equity in, and ownership of, our expanding resources.

We have now decided to propose to the Parliament, in the early part of next year, amendments to the taxation law as it affects overseas borrowings, such amendments to be effective as from 1st July 1971.

We have recently completed a review of the effect of the interest withholding tax which must be deducted by Australian borrowers, at the rate of 10%, from interest payments made to overseas lenders on loans raised overseas.

We believe that this tax, intended to fall on overseas lenders who earn interest in Australia, frequently falls instead on the Australian borrower. An overseas lender, knowing that 10% of the interest payments to him will be withheld in Australia, increases the rate of interest above the level at which it otherwise would have been, or requires the borrower to meet the tax.

This additional cost falls on Australian Companies for they, of course, do not have the advantage of access to loan funds from abroad through overseas parent companies, or associated companies.

It was, of course, never intended that the interest withholding tax should make it more difficult for Australian Companies to participate in ventures in Australia on equal terms with Companies from overseas. It is therefore intended to amend the income tax law to exempt from the payment of withholding tax interest payments made overseas on borrowings overseas by Australian controlled Companies for predominantly Australian owned ventures, or for financing a substantial Australian equity participation in a venture.

This review of the law regarding taxation of interest on overseas borrowings is designed to give further effect to the Government's policies of helping to protect Australian equity and ownership.

At the same time as it proposes the above amendment the Government will also propose to the Parliament that Sections 126 and 128 (b) of the Income Tax Assessment Act should be amended so that interest paid overseas on overseas borrowings made by means of a public issue, or widely offered private placement of bearer bonds, will no longer incur penalty rates of tax or be subject to withholding tax.

This will apply whether such borrowings are made by Australian controlled companies or by overseas companies and should confer important benefits on all Companies operating in Australia.

Our central aim is to create conditions under which overseas investment will continue to be attracted to Australia yet under which there will be improved opportunities for Australian participation in development enterprises and industrial expansion requiring overseas capital.