The Hon Peter Costello, MP
Treasurer

International taxation — Review of International Taxation Arrangements

What is the Government's response to the Review of International Taxation Arrangements?	The Government's response is a package of reforms that will improve the competitiveness of Australian companies with offshore operations, by reducing the costs of complying with the controlled foreign company (CFC) rules, reducing tax on foreign 'active' business income, and effectively reducing foreign taxes by modernising Australia's tax treaties.
Why is the Government making these changes?	The reforms will encourage the establishment in Australia of regional headquarters for foreign groups, and improve Australia's attractiveness as a continuing base for our multinational companies. The reforms will also enhance the competitiveness and reduce the compliance costs of Australian based managed funds.
What are the main components of the Government's package?	The main components of the Government's package include: - simplifying the application of the CFC rules for Australian companies operating in countries where tax arrangements are comparable to those in Australia and easing these rules for certain services provided in international markets; - exempting Australian companies (and their CFCs) from capital gains tax (CGT) on the sale of certain non-portfolio interests in foreign companies and extending the existing tax exemption for foreign non-portfolio dividends (and certain branch profits). This will assist Australian companies operating offshore, as well as regional headquarter operations based in Australia;

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What are the main components of the Government's package? (*continued*)	- further consultation with the business community to determine whether another aspect of conduit income tax relief — a targeted CGT exemption for the disposal by non-residents of interests in Australian companies, to the extent a gain or loss has an underlying foreign source — can be practically developed; - better targeting the foreign investment fund (FIF) rules to reduce compliance costs for Australian managed funds and superannuation entities investing offshore by increasing the 'balanced portfolio exemption' from five to ten per cent for all taxpayers and exempting complying superannuation funds from the FIF rules; - revising certain aspects of the cross-border taxation of trusts to improve the international competitiveness of Australian managed funds; - moving towards a more residence-based treaty policy, consistent with the direction set in the US Protocol. This is expected to enable early finalisation of a revised tax treaty with the United Kingdom; and - addressing the double taxation of employee share options. A previously announced measure requiring security from departing residents for deferred CGT liabilities will not proceed.
Who will benefit from this measure?	This measure will benefit: - Australian companies with offshore operations and their shareholders; - regionally-focussed subsidiaries of foreign multinationals; - Australian managed funds and superannuation funds; and - individuals changing residence between countries.

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When will these measures commence?	‣ The majority of these reforms will not commence until 1 July 2004 or later to enable adequate public consultation to be undertaken on the design of the legislation, including addressing integrity issues. ‣ Priority will be given to implementing key reforms to the CFC and FIF rules to achieve early commencement where possible. Remaining reforms will be implemented in successive tranches.
How can I find out more about this measure?	‣ Further details may be found in the Treasurer's Press Release of 13 May 2003. ‣ See also the revenue measure titled International Taxation — Review of International Taxation Arrangements in the Treasury portfolio in Budget Paper No. 2. ‣ See also the Board's Report: *Review of International Taxation Arrangements* at www.taxboard.gov.au.

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