Attachment H

AUSTRALIANS INVESTING OFFSHORE

A measure will be introduced to provide imputation credits of up to 15 per cent of repatriated dividends for foreign dividend withholding tax (DWT) paid. This will assist Australian multinationals that are expanding offshore and paying unfranked dividends.

The tax treatment of the foreign source income of resident trusts subject to entity taxation will be made consistent with that applying to companies, and the rules for foreign trusts will be strengthened to counter tax avoidance.

The Government will propose to New Zealand that discussions be held with a view to introducing a mechanism to allow franking credits to flow through trans-Tasman companies on a pro-rata basis to Australian and New Zealand investors (triangular case).

Imputation credits for foreign DWT

Imputation credits of up to 15 per cent of repatriated foreign source dividends will be provided for foreign DWT paid, including for DWT paid on exempt repatriated dividends.

Commencement date

The measure will apply to dividends received on or after 1 July 2001.

Why the change is needed

Under existing arrangements, shareholders of Australian companies that are expanding offshore can face high effective tax rates on foreign investments. This can arise where foreign company tax, DWT and personal tax are imposed on foreign source income distributed to shareholders. Allowing companies to partially frank their dividends where they have paid DWT on foreign source income will reduce the rate of tax on offshore investments.

This measure is consistent with recommendation 20.1 of *A Tax System Redesigned*.

Consistent treatment of resident entities deriving foreign source income

This measure will allow resident trusts to claim 'underlying' foreign tax credits for investments in foreign entities and provide them with the exemptions for non-portfolio dividends and branch profits allowed to companies.

This measure is consistent with recommendations 20.4 and 20.5 of *A Tax System Redesigned*.

Commencement date

The measures will apply from 1 July 2001.

Why the change is needed

Under current arrangements, foreign source income derived through trusts is generally treated as if it was derived directly by the beneficiaries. As part of the consistent treatment of entities, trusts will be taxed like companies and these measures are necessary to ensure the foreign source income derived by trusts is also treated in the same manner as companies.

Triangular case

Why the change is needed

Where Australians receive dividends from New Zealand companies that have Australian investments, they do not receive franking credits for any Australian tax paid on those investments.

Simplifying and strengthening the rules for foreign trusts

Key features

- Simplicity — foreign fixed trusts will only be accruals taxed under the Foreign Investment Fund rules unless there are foreign beneficiaries; transfers to foreign discretionary trusts will be subject to the transferor trust rules.
- Certain exemptions from the transferor trust measures will be removed.
- An amnesty will be provided to allow foreign trusts affected by the removal of the exemptions to be wound up with distributions from those trusts to be taxed at 10 per cent.

These measures are consistent with recommendations 20.7 to 20.12 of *A Tax System Redesigned*.

Commencement date

The measures will apply from 1 July 2001.

Why the change is needed

Anti-tax-deferral rules currently seek to tax Australian residents on foreign source income accumulated in a foreign trust. However, these rules are not fully effective in preventing these trusts from being used to avoid Australian tax. As well as strengthening the rules, there is scope to reduce overlap in the tax legislation that can apply to foreign trusts.