

TAXATION



**MERITAS**<sup>®</sup>  
LAW FIRMS WORLDWIDE

# GUIDE TO DOING BUSINESS IN AUSTRALIA





**MERITAS**<sup>®</sup>  
LAW FIRMS WORLDWIDE

# GUIDE TO DOING BUSINESS IN AUSTRALIA AND NEW ZEALAND

---

PREPARED BY MERITAS LAWYERS  
IN AUSTRALIA AND NEW ZEALAND



Published by Meritas, Inc. • 800 Hennepin Avenue, Suite 600

Minneapolis, Minnesota 55403 USA

+1.612.339.8680 | +1.612.337.5783 FAX | [www.meritas.org](http://www.meritas.org)

© Copyright 2015, Meritas, Inc. All rights reserved.

## Guide to Doing Business in Australia and New Zealand

This publication has been prepared to provide an overview to foreign investors and business people who have an interest in doing business in Australia and New Zealand. The material in this publication is intended to provide general information only and not legal advice. This information should not be acted upon without prior consultation with legal advisors.

Meritas firms offer clients the ability to access high-quality legal services throughout Australia, New Zealand and worldwide. With nearly 7,000 business lawyers in over 200 cities, Meritas gives your company access to local counsel around the world.

Meritas firms:

- Offer high-quality, worldwide legal services through a closely integrated group of full-service law firms
- Are subject to rigorous selection criteria, ongoing service monitoring and periodic recertification reviews
- Provide global reach and access to local knowledge at market rates
- Offer coordinated service across jurisdictions
- Can be found on [www.meritas.org](http://www.meritas.org) which enables direct access to member firms through a searchable database of lawyer skills and experience plus links to contacts at each Meritas firm

There are over 170 lawyers in six firms across Australia and New Zealand providing clients a local legal partner with deep international resources. Our lawyers are supported by knowledgeable and conscientious patent agents, trade mark agents, notaries, administrative legal assistants, real estate law clerks, corporate clerks and litigation support specialists. We are closely integrated and strategically placed to deliver coordinated, efficient legal services.

The following currency notations are used in this book:

AUD Australian Dollar

NZD New Zealand Dollar

*Please be aware that the information on legal, tax and other matters contained in this booklet is merely descriptive and therefore not exhaustive. As a result of changes in legislation and regulations as well as new interpretations of those currently existing, the situations as described in this publication are subject to change. Meritas cannot, and does not, guarantee the accuracy or the completeness of information given, nor the application and execution of laws as stated.*

This book is intended to provide practical and useful insights into the 10 most common questions facing foreign investors and businesses:

1. What role does the government play in approving and regulating foreign direct investment?
2. Can foreign investors conduct business without a local partner? If so, what corporate structure is most commonly used?
3. How does the government regulate commercial joint ventures between foreign investors and local firms?
4. What laws influence the relationship between local agents or distributors and foreign companies?
5. What steps does the government take to control mergers and acquisitions with foreign investors of its national companies or over its natural resources and key sectors (e.g., energy and telecommunications)?
6. How do labor statutes regulate the treatment of local employees and expatriate workers?
7. How do local banks and government regulators deal with the treatment and conversion of local currency, repatriation of funds overseas, letters of credit, and other basic financial transactions?
8. What types of taxes, duties and levies should a foreign investor expect to encounter?
9. How comprehensive are the intellectual property laws? Do local courts and tribunals enforce them objectively, regardless of the nationality of the parties?
10. If a commercial dispute arises, will local courts or arbitration offer a more beneficial forum for dispute resolution to foreign investors?

Contributing to this book are the law firm members of the Meritas alliance in Australia and New Zealand. Each firm is comprised of local lawyers who possess extensive experience in advising international clients on conducting business in their respective countries. The firms were presented with these 10 questions and asked to provide specifics about their jurisdiction along with timely insights and advice. In a very concise manner, the book should provide readers with a solid overview of the similarities and differences, strengths and weaknesses of the states and territories of Australia and New Zealand.

*Peter Kennedy, Managing Partner  
Madgwicks Lawyers  
Melbourne, Victoria*

# SNEDDEN HALL & GALLOP

## DEAKIN - AUSTRALIAN CAPITAL TERRITORY

Tel: +61 (2) 6285 8000 | [www.sneddenhall.com.au](http://www.sneddenhall.com.au)



**Dennis Martin**

[lawyers@sneddenhall.com.au](mailto:lawyers@sneddenhall.com.au)



With over 55 years' experience Snedden Hall & Gallop is Canberra's most established independent law firm, with the skills and experience necessary to provide a full range of legal services to corporate, government, associated bodies and individuals. Our lawyers are among the most experienced practitioners in the territory, with many having been in practice for several decades. For over 55 years, the firm has utilised its skills and knowledge to provide a full range of legal services to companies, small to medium businesses and individuals across the ACT and surrounding region.

Snedden Hall & Gallop is dedicated to achieving the best results for our clients. Many of Canberra's most prominent businesses choose us as their legal counsel and have done so for several years and often several decades. Our lawyers are there for our clients in the best of times and the worst of times.

Snedden Hall & Gallop offers a range of legal services to both private and corporate clients, and specialises in the areas of:

- Business Law
- Dispute Resolution
- Employment Law
- Superannuation Litigation
- Migration Services
- Wills and Estate Planning
- Property Law
- Compensation Law

Snedden Hall & Gallop is committed to providing an unparalleled quality of service. We pride ourselves on the personal attention we give to every client, including a high level of client-to-lawyer contact. Our lawyers are always available for face-to-face conferences, and we have a policy of promptly responding to phone calls and emails. Additionally, our team is in constant consultation with each other, resulting in the efficient delivery of advice that draws on the vast expertise within our firm.

# SWAAB ATTORNEYS

## SYDNEY - NEW SOUTH WALES

Tel: +61 (2) 9233 5544 | [www.swaab.com.au](http://www.swaab.com.au)



**Fred Swaab**

[fxs@swaab.com.au](mailto:fxs@swaab.com.au)



**Mary Digiglio**

[med@swaab.com.au](mailto:med@swaab.com.au)



Swaab Attorneys is a multi-award winning, mid-sized commercial law firm offering legal services across a number of core practice areas and industry groups. We are based in Sydney; Australia's largest city, with a population in excess of 4.3 million people.

Our firm is shaped by our Swaab Brand of Service: a set of service standards we aspire to meet in all of our dealings, both with colleagues within our business and with our clients. In August 2014, Swaab Attorneys was named a finalist in the ALPMA Thought Leadership Awards for the development of the "USB separation survival kit." Swaab has also been a finalist in the BRW Client Choice Awards for seven consecutive years and have won three times, the most recent win being Best Law Firm (rev under AUD50m) and Best NSW Firm at the 2012 BRW Client Choice Awards. But it's not just our client service that has been awarded, we have also appeared for four consecutive years on the BRW Great Place to Work list.

We have strong capabilities in most areas of commercial and corporate law. We practice in corporate structuring and commercial transactions, intellectual property, franchise law and employment, property, planning and projects, real estate transactions and all areas of commercial litigation. We also have a large private client practice servicing family law, estate planning and other "high net worth" personal services.

We have a number of international clients for whom we act as attorneys and agents to assist them with their introduction to Australia's business landscape and the development of their business in Australia.

Our clients are medium sized, fast growing businesses and publicly listed companies in various retail, property, health, and insurance and not-for-profit industries as well as property trusts, state government departments and local government agencies. By way of example our client base includes; a major commercial property trust (Investa Funds Management), a Canadian mining



---

group (Red Lion Management), a Chinese commercial glass manufacturer (Austech Group), a subsidiary of a US owned rail freight and logistics company (Freightliner Australia), a global online marketing and research provider (Pureprofile Inc), Australia's largest online auction house (GraysOnline), one of Australia's largest supermarket retailers and one of the world's largest private hospital providers.



**Russell Beer**

[rbeer@macdonnells.com.au](mailto:rbeer@macdonnells.com.au)



**Luckbir Singh**

[lsingh@macdonnells.com.au](mailto:lsingh@macdonnells.com.au)



MacDonnells Law is one of Queensland's largest and longest established independent law firms with 100 personnel, including 10 partners and 40 legal staff.

MacDonnells Law is unique in that it is the only independent law firm in Queensland to have full service offices in three of Queensland's major geographical, demographic and commercial centres, namely Cairns, Townsville and Brisbane.

For more than 130 years, the firm has offered state-wide legal services to commercial, insurance, government and individual clients throughout Queensland. Our connected, state-wide network gives us the unique ability to provide personal, local support from our regional offices, respond to client needs no matter where they are in Queensland, and ability to respond promptly regardless of the nature, size, complexity or duration of a matter.

Our firm is structured into five state-wide practice groups, comprised of highly experienced legal practitioners from all areas of law, including:

- **Commercial and Corporate:** contracts, commercial advisory, corporate law, property, intellectual property and conveyancing;
- **Dispute Resolution and Litigation:** insurance, industrial relations and employment, workplace safety, commercial disputes, trade practices law, debt recovery and insolvency;
- **Government:** government advisory, planning and environmental law, development advisory, building and construction, native title and cultural heritage.
- **Personal Law:** family law, collaborative law, asset protection and wills and estates.

At state-level, the firm plays an integral part in both the legal profession and business communities with the firm's senior personnel holding influential positions in key industry advocacy groups including the Australian Institute of





---

Company Directors, Tax Institute of Australia, Urban Development Institute and Property Council.

The MacDonnells Law team also has a strong understanding of government processes and policy that impact commercial organisations, as we are a platinum partner to the Local Government Managers Association (LGMA), a strong supporter of the Local Government Association of Queensland (LGAQ) and provide legal services to several state government entities.



**Peter Kennedy**

[peter.kennedy@madgwicks.com.au](mailto:peter.kennedy@madgwicks.com.au)

## MADGWICKS

*Lawyers*

Madgwicks is a progressive Australian business law firm servicing local, national and international clients. Our staff pride themselves on responsive

legal services driven by a passion for client success.

The firm develops close working relationships with clients, providing practical commercial advice, focusing on legal solutions to achieve our clients' goals. Our clients view us as a crucial business partner as we have an intimate knowledge of their business, industry and the specific project. We position ourselves as a key element to the success of a project, and our clients view us as such.

The relationship between client and law firm is of extreme importance. Madgwicks places great emphasis on establishing an open, trusting and strong relationship with our clients. The value the firm places on relationships is reflected in the internal culture of the firm which has many long term professional and support staff employees.

The firm's clients include private and listed corporations, financial institutions, professional firms, business and private individuals. Madgwicks has clients in a diverse range of industries, including manufacturing, retailing, business services, energy, information technology, financial services, superannuation, building and construction, property development, transport, agribusiness, marketing, tourism and hospitality.

Our lawyers are skilled in handling the needs of overseas companies wishing to invest in Australia and are familiar with the rules and procedures relating to foreign investment in Australia.

### **Establishing operations in Australia**

Australia is a great place to do business and a safe place to operate a business. With a strong economy, Australia represents an attractive proposition for offshore companies looking to grow their global operations.

While Australia's stable Government and well established legal system make it a low risk place to invest, companies looking to start operations face a myriad of registration and compliance issues. It is essential to get the right professional advice prior to commencing operations to give your business the best chance to flourish.

### **Madgwicks expertise for inbound clients**

The core advisor for businesses planning to start up operations in Australia is a legal firm. Madgwicks has a team of highly experienced lawyers who:

- Are experienced in establishing businesses from offshore
- Have specific industry experience and knowledge
- Are accessible and eager to establish a long term relationship with an in-bound company looking to start up operations in Australia
- Provide a comprehensive range of services covering every aspect of business start up
- Are well connected in business circles with the ability to source other specialist advisors as well as facilitate alliances, suppliers and relationships with potential clients

Our legal services for business start-ups include:

- Structuring of business
- Employment contracts and workplace relations compliance
- Tax structuring compliance
- Intellectual property
- Commercial advice

We can also assist clients in respect to migration law matters as well as finding and leasing property and identifying other key service providers such as accountants and business advisors.

Services offered to Meritas members and their clients

- Free 30 minute consultation
- Introduction to key contacts
- Use of meeting rooms
- Advice on accommodation
- Immigration and relocation assistance
- Assistance with tickets to Melbourne events

# WILLIAMS + HUGHES PTY LTD.

## PERTH - WESTERN AUSTRALIA

Tel: +61 (8) 9481 2040 | [www.whlaw.com.au](http://www.whlaw.com.au)



**Damian Quail**

[damian.quail@whlaw.com.au](mailto:damian.quail@whlaw.com.au)



**Tully Carmady**

[tully.carmady@whlaw.com.au](mailto:tully.carmady@whlaw.com.au)



Williams + Hughes is a Western Australian law firm specializing in commercial law and commercial litigation and dispute resolution. We have offices in Perth, the State capital city, and Geraldton, Western Australia's largest regional city.

The firm was established in 1986 as one of Perth's first boutique commercial law firms. The firm grew quickly and attracted a wide range of quality work. We now act for a wide range of clients, including small to large businesses, private companies, public listed companies, multi-national groups and high net worth individuals.

Our primary focus is on commercial work, providing services in the business and corporate law, resources, commercial litigation and dispute resolution fields. We regularly act on complex, large matters against national and international global legal firms, and these firms regularly refer work to us where they are conflicted from acting. We operate in all civil and commercial jurisdictions and are particularly active in the Federal and Supreme Courts

Apart from English, we have staff members that speak Cantonese, Mandarin, German, French, Italian and Indonesian (various levels of competency).

What makes our practice unique is the way we work to deliver a positive outcome for our clients. We are creative and precise in our thinking, pragmatic in our approach, responsive to our client's changing needs and understand the importance of achieving practical commercial solutions.

A key differentiator is that we work hard to understand our client's industries. Often we become trusted business advisers, and are involved in the early stages of developing transactions rather than being brought in later to document agreed deals.

Our philosophy, **working in your favour**, has helped our practice grow over the last 29 years into one of Western Australia's most respected commercial law firms.

## TOP 10 QUESTIONS

---

### **1. WHAT ROLE DOES THE GOVERNMENT PLAY IN APPROVING AND REGULATING FOREIGN DIRECT INVESTMENT?**

---

The government regulates foreign investment through the Foreign Investment Review Board (FIRB), which is a Board within the Commonwealth Department of Treasury. One of its roles is to examine proposals by foreign interests to undertake direct investment in Australia and to make recommendations to the government whether the proposals are suitable for approval under the Australian government's policy. The ultimate decision whether a proposal is approved lies with the Treasurer.

FIRB is also responsible for monitoring and ensuring compliance with foreign investment policy.

Different rules apply depending on the nature of the proposed foreign investment, for example, an investment in residential real estate or commercial real estate versus in an Australian business. Whether FIRB approval is required for a proposed foreign investment may also depend on whether the proposed investment exceeds certain set monetary thresholds.

The application process for obtaining FIRB approval is fairly rigorous but is generally determined within 30 days of lodgement of the application, although this period may be extended.

### **2. CAN FOREIGN INVESTORS CONDUCT BUSINESS WITHOUT A LOCAL PARTNER? IF SO, WHAT CORPORATE STRUCTURE IS MOST COMMONLY USED?**

---

Yes, there is no general legal requirement for a foreign investor to conduct a business with a local partner.

The most common corporate structure used in conducting business in Australia is a company, although other structures such as joint ventures, partnerships and trusts may also be used.

Even with a local partner, FIRB approval may be required.

### **3. HOW DOES THE GOVERNMENT REGULATE COMMERCIAL JOINT VENTURES BETWEEN FOREIGN INVESTORS AND LOCAL FIRMS?**

---

Generally, the government does not regulate commercial joint ventures between foreign investors and local firms; however, the government may regulate the foreign investor through FIRB and other laws such as the *Corporations Act* (which regulates companies generally) and taxation laws.

---

### **4. WHAT LAWS INFLUENCE THE RELATIONSHIP BETWEEN LOCAL AGENTS OR DISTRIBUTORS AND FOREIGN COMPANIES?**

---

Broadly speaking the relationship between an Australian agent or distributor and an overseas supplier would be a contractual one governed by the same principles of contract law as the UK and other English speaking jurisdictions.

Under Australian tax law, the pricing of goods and services supplied under contract between an Australian agent or distributor and an overseas supplier is expected to be set on an “arms-length” basis. There are comprehensive and complex tax laws dealing with transfer pricing of goods and services imported to or exported from Australia for the purposes of protecting the revenue.

Where the Commissioner of Taxation forms the opinion that cross-border transactions have not been priced on an arms-length basis, the Commissioner has power to make compensating adjustments and impose penalties.

---

### **5. WHAT STEPS DOES THE GOVERNMENT TAKE TO CONTROL MERGERS AND ACQUISITIONS WITH FOREIGN INVESTORS OF ITS NATIONAL COMPANIES OR OVER ITS NATURAL RESOURCES AND KEY SECTORS (E.G., ENERGY AND TELECOMMUNICATIONS)?**

---

FIRB controls whether a foreign investor may invest in certain sectors. There are certain sectors where foreign investment will be prohibited or restricted or otherwise restricted as being against the national interest or as being against Australia’s national security. These include residential real estate, media, telecommunications and military (albeit FIRB approval may be granted in these areas in certain circumstances).

Even if a proposed foreign investment does not fall within a sensitive sector, FIRB has an overriding policy where approval may be declined where the proposed investment is against the national interest or is against Australia's national security.

## 6. HOW DO LABOR STATUTES REGULATE THE TREATMENT OF LOCAL EMPLOYEES AND EXPATRIATE WORKERS?

### LOCAL EMPLOYEES

Australia's system is strongly regulated by state and federal legislation. Companies that are trading corporations fall within the federal system of industrial relations presently administered pursuant to the *Fair Work Act 2009*.

Most blue-collar and clerical workers have their employment terms and conditions determined by reference to the National Employment Standards, and various awards and collective agreements approved by Fair Work Australia, a third party tribunal.

Senior executives and management more commonly have their terms and conditions of employment determined by reference to common law agreements negotiated directly between the employer and the employee. The terms of such agreements must still exceed the statutory minimum standards.

Workplace health and safety, discrimination, and workers' compensation for workplace injury are regulated by state or territory legislation.

### EXPATRIATE WORKERS

The terms and conditions for expatriate workers will greatly depend upon the type of visa arrangements approved by the Australian immigration authorities. Business people visiting from overseas can continue to enjoy the benefits of their home-based employment arrangements while undertaking short-term business activities in Australia. However, where visas are required, the employees will most commonly be required to be engaged as if they were employees fully covered by the Australian industrial relations regime and legislation referred to above. In any event, key legislation covering such issues as workplace health and safety and worker's compensation will apply to any person working in Australia.

## **7. HOW DO LOCAL BANKS AND GOVERNMENT REGULATORS DEAL WITH THE TREATMENT AND CONVERSION OF LOCAL CURRENCY, REPATRIATION OF FUNDS OVERSEAS, LETTERS OF CREDIT AND OTHER BASIC FINANCIAL TRANSACTIONS?**

---

Generally, Australia does not have any exchange controls. The Australian dollar (AUD) is a floating currency widely and transparently traded, although the Reserve Bank may, from time to time, buy or sell AUD to smooth out unusual market events.

There are no restrictions on repatriation of profits back to overseas parents by way of dividends or loan repayments other than:

- The usual requirement that the Australian entity meet the solvency test of being able to meet its debts as and when they fall due, or
- In some cases, making sure the company does not fail the thin capitalisation test to ensure that its interest expense is fully deductible for tax purposes.

Local banks are generally well capitalised and sophisticated financial institutions. As such, they are accustomed to trading in foreign exchange and dealing with letters of credit and other trade-based securities.

There are, however, some reporting requirements in relation to the movement of large sums of money and there may also be financial sanctions imposed in relation to transactions involving certain countries, entities or individuals.

---

## **8. WHAT TYPES OF TAXES, DUTIES AND LEVIES SHOULD A FOREIGN INVESTOR EXPECT TO ENCOUNTER?**

---

For most operating companies the following taxes would be encountered by an Australian operation:

- Company tax at 30% on taxable income
- Withholding tax on any dividends to the extent that these are unfranked (i.e., franked dividends to overseas shareholders are free of withholding tax)
- Withholding tax at 10% on interest payable to an overseas party
- Withholding tax on royalties payable to an overseas party
- State duties on the acquisition of land and other assets including shares in a company



- In some cases, payroll tax on wages and salaries (a state-based impost)
- Resource Rent Tax (oil and gas only)
- Pay-as-you-Go withholding tax (on the salaries and wages of employees which is remitted directly to the Commissioner of Taxation and a credit allowed to respective employees on filing their income tax return)
- In some cases, Fringe Benefits Tax on non-cash compensation paid to employees

---

## 9. HOW COMPREHENSIVE ARE THE INTELLECTUAL PROPERTY LAWS? DO LOCAL COURTS AND TRIBUNALS ENFORCE THEM OBJECTIVELY, REGARDLESS OF THE NATIONALITY OF THE PARTIES?

---

Australia is a member of World Trade Organisation and TRIPS, as well as the Berne, Paris and Rome Conventions, the Patent Co-Operation Treaty, the Madrid Protocol (for trade marks) and a member of other international IP treaties administered by the World Intellectual Property Organisation. As a result, Australia has a comprehensive intellectual property regime. It includes legislative regimes (e.g., *Copyright Act*, *Trade Marks Act*, *Patents Act*, *Designs Act*, *Plant Breeders Rights Act* and *Circuit Layouts Act*) and common law regimes (e.g., the protection of confidential information and common law trade marks). Australia's intellectual property statutes create both civil and criminal liability for infringements, but criminal prosecutions are rare. Where applicable, Australian intellectual property laws are enforced objectively (principally in the federal jurisdiction) and are enforced regardless of the nationality of the parties, subject to a principal of reciprocity in respect of copyright infringement such that Australia courts will only recognise copyrights of foreign nationals to the extent that courts of that national's country recognise an Australian copyright.

## **10. IF A COMMERCIAL DISPUTE ARISES, WILL LOCAL COURTS OR ARBITRATION OFFER A MORE BENEFICIAL FORUM FOR DISPUTE RESOLUTION TO FOREIGN INVESTORS?**

All Australian courts including federal, state and territory courts offer well-regulated dispute resolution processes. The *Civil Dispute Resolution Act 2011* requires parties to litigation to certify that they have taken genuine steps to resolve a dispute prior to commencing proceedings in the Federal Court. Increasingly these courts, generally with the support of litigants and their lawyers, are requiring that pro-active case management, mediation and other alternate dispute resolution processes be implemented as early as possible to resolve disputes without the costs and delays involved in full-blown trials.

Further, in September 2010, the Federal Attorney General's Department established a Mediation Standards Board for the accreditation and regulation of Australian mediators. Accredited commercial mediators may be sourced through accrediting organisations such as LEADR and Institute of Arbitrators and Mediators Australia.

Mediation is cross-jurisdictional and therefore increasingly attractive for the resolution of international disputes.

While arbitration is also available, with well-regulated commercial arbitration procedures in most jurisdictions, the growth in alternative dispute resolution processes has meant that in general terms litigants are less attracted to arbitration than they may have been in the past. The fact that arbitration is no longer seen as a significantly less expensive alternative than traditional court-based litigation is a likely contributing factor to this.

## TAXATION

It is not possible to give a complete outline of the scope of the taxation system in this guide. A brief outline of the basic taxation principles and some of the major forms of taxation are discussed below.

In all cases, we strongly recommend that you obtain professional tax and legal advice before structuring or implementing your investment or business plans in Australia. Meritas law firms have considerable tax expertise.

All levels of government in Australia levy tax.

### FEDERAL TAXES

The most important federal taxes are:

- Income tax (including capital gains tax)
- Company tax
- Goods and services tax
- Customs duties
- Fringe benefits tax

State or territory governments levy none of these taxes.

### STATE AND TERRITORY TAXES

These taxes include:

- Stamp duty
- Land tax
- Payroll tax

The federal government levies none of these taxes.

### LOCAL GOVERNMENT TAXES

Local or municipal governments raise revenue by levying a “rate” on land located within their districts. The rate is proportional to the value of the land. Some municipalities rate on the basis of land value alone while others rate on the basis of land value and improvements.

### PROBATE, DEATH DUTIES AND GIFTS

There are no probate or death duties in Australia. Gifts of assets are also not subject to any specific gift tax but may be subject to capital gains tax if not in cash.

### INCOME TAX

Australia taxes residents on worldwide income. Nonresidents are taxed on the basis of Australian source income only. Temporary resident individuals are taxed as though they are nonresidents (i.e., only on Australian source income and gains).

The financial or income reporting year in Australia is generally from 1 July to the following 30 June though substituted accounting periods can be arranged where there is a good reason (e.g., to align Australian reporting with an overseas parent company).

A company will generally be a resident of Australia for taxation purposes if it is incorporated in Australia or if its central management or control is located in Australia. Double Tax Treaties may treat companies as resident at the place of effective control to avoid treating them as residents of more than one country.

Taxable income in Australia is the difference between assessable income and allowable deductions. The notion of “assessable income” is broader than the accounting notion of “income.” For instance, assessable income in Australia includes capital gains.

The notion of “allowable deductions” includes most things that would be allowed as a deduction for accounting purposes. However, it does not include entertainment expenses or outgoings of a private or domestic nature (e.g., interest on a mortgage used to purchase a private property).

Losses may be carried forward from one year to the next but cannot be carried back. (A limited, company loss carry back rule was repealed in Australia after one year of operation.) Company losses must meet either a “continuity of ownership” test or a “continuity of business” test to remain deductible in subsequent years. Foreign tax credits are usually recognized.

#### Capital Gains Tax (CGT)

Assessable income may include net capital gains. Net capital gains derived by companies are taxed at the usual corporate rate of 30%.

Australian residents are liable for tax on worldwide capital gains. In many cases these gains may qualify for a 50% discount and in some small business cases a further 50% discount is available.

The Australian CGT rules allow a number of indefinite deferrals of tax by allowing rollover relief. This is a matter on which your Meritas firm can provide more detailed advice and assistance.

Overseas resident investors, however, are now largely exempted from Australian CGT except on the limited class of assets known as “taxable Australian property.” Broadly, this refers to interests in Australian real estate and related property interests. Where an overseas entity incorporates an Australian company which conducts an active Australian business that is not “land rich” the capital gain on sale of the Australian company shares would generally be tax free. Again, this is an area where expert advice is strongly recommended from your Meritas firm.

## Individual Tax Rates

Taxable income is treated differently for individuals compared with companies.

### Residents

The tax rates for resident individuals for the 2014-15 year are set out below:

<b>Taxable Income (AUD)</b>	<b>Tax Payable</b>
Nil - 18,200	Nil
18,201 - 37,000	19% of excess over 18,200
37,001 - 80,000	3,572 + 32.5% of excess over 37,000
80,001 - 180,000	17,547 + 37% of excess over 80,000
180,001 +	54,547 + 47% of excess over 180,000

A Medicare Levy of 2% is also charged.

### Nonresidents

The tax rates for nonresident individuals for the 2014-15 year are set out below:

<b>Taxable Income (AUD)</b>	<b>Tax Payable</b>
Nil - 80,000	32.5%
80,001 - 180,000	26,000 + 37% of excess over 80,000
180,001 +	63,030 + 47% of excess over 180,000

### Companies

Companies are currently taxed at a flat rate of 30% on their taxable income. It may happen that the Australian company tax rate will be reduced to 28.5%, at least for smaller companies, from 1 July 2015.

If no dividend is declared, no further tax is payable. Australia does not impose either excess profits tax or adopt any alternative minimum tax rules.

If a dividend is declared, and the dividend comes from funds on which the company has paid Australian tax, then a resident shareholder will be taxed on an amount that consists of the cash received or credited plus an amount called a “franking credit” which represents the company tax paid by the company. The resident individual shareholder can use the company tax (that is the franking credit) to offset any liability to pay the individual’s personal tax.

If the shareholder is a resident individual with a tax rate of less than 30%, and has income consisting of only fully franked dividends, the resident individual will be entitled to a tax refund.

No tax will be payable if the resident shareholder is another resident company.

For example: Assume a company has AUD100 profit and one shareholder. The company pays AUD30 company tax (being 30% of AUD100). The board of the company may choose to pay a dividend. Assume it chooses to pay an AUD100 dividend. In that case, the shareholder receives AUD70 cash and a tax credit of AUD30 (“franking credit”). For income tax purposes the shareholder has received taxable income of AUD100. The shareholder must pay income tax on the AUD100 at his marginal rate but is entitled to an AUD30 tax credit for the franking credit.

### WITHHOLDING TAX

Australia levies a withholding tax on remittances of the following types to nonresidents at the rates set out:

- Interest: 10%
- Dividend: 30%
- Royalty: 30%

Where an Australian resident remits income of the type mentioned above to a nonresident, *prima facie* tax at the rate set out above must be deducted from the payment by the Australian resident remitter.

These rates are reduced for the various Double Tax Treaties to which Australia is a signatory. In the case of the United States, the Australia-U.S. Free Trade Agreement further reduces the rates.

**Dividend Withholding Tax (DWT)**

Where an Australian resident is a company that pays a dividend out of profits in respect of which company tax has been paid at 30% as outlined above to a nonresident shareholder (i.e., the dividend is fully franked) then no DWT is levied.

To the extent to which distributions to a nonresident are unfranked, these are subject to DWT at 30%, reduced by tax treaties where applicable. Most treaties provide for 15% DWT. Special rules apply for New Zealand under the Triangular Tax Rules to provide an element of mutual recognition of trans-Tasman franking credits.

Certain unfranked dividends may be paid to nonresident shareholders under the “conduit foreign income” rules. Generally, conduit foreign income represents income and gains made by or through an Australian company that are not taxed at the company level (e.g., foreign non-portfolio dividends and gains on the disposal of certain foreign shares). These generous exemptions now make Australia an ideal place to base an intermediary holding company.

**Interest Withholding Tax (IWT)**

Interest paid to nonresidents by Australian residents generally attracts IWT at 10% unless either reduced by a tax treaty or covered by certain limited exemptions.

**Royalty Withholding Tax**

Royalties are defined very broadly to include fees for the supply of certain property or rights. Royalties paid will generally be deductible to an Australian company, subject to the transfer pricing rules if paid to a related party or on non-arms-length terms.

Royalties are subject to withholding tax at 30% unless reduced by a tax treaty, where the rate is generally 10%.

**Double Tax Treaties**

Australia is party to a comprehensive range of double tax agreements with a number of countries. One effect of all double tax agreements is that the dividend and royalty withholding tax rates specified above are substantially reduced. Where treaty rates are higher than domestic rates, the lower rate prevails.

Withholding tax rates under Australia's tax treaties are set out in the following table.

<b>Country</b>	<b>Dividends</b>	<b>Interest</b>	<b>Royalties</b>
Argentina	10% - 15%	12%	10% - 15%
Austria	15%	10%	10%
Belgium	15%	10%	10%
Canada	5% - 15%	10%	10%
Chile	5% - 15%	5% - 15%	5% - 10%
China (not HK or Macau)	15%	10%	10%
Czech Republic	5% - 15%	10%	10%
Denmark	15%	10%	10%
Fiji	20%	10%	15%
Finland	0% - 15%	10%	5%
France	0% - 15%	10%	5%
Germany	15%	10%	10%
Hungary	15%	10%	10%
India	15%	15%	10% - 15%
Indonesia	15%	10%	10% - 15%
Ireland	15%	10%	10%
Italy	15%	10%	10%
Japan	5% - 10%	10%	5%
Kiribati	20%	10%	15%
Korea	15%	15%	15%
Malaysia	15%	15%	15%
Malta	15%	15%	10%
Mexico	0% - 15%	10% - 15%	10%
Netherlands	15%	10%	10%
New Zealand	0% - 15%	10%	5%
Norway	0% - 15%	10%	10%
Papua New Guinea	15% - 20%	10%	10%
Philippines	15% - 25%	10% - 15%	15% - 25%



Country	Dividends	Interest	Royalties
Poland	15%	10%	10%
Romania	5% - 15%	10%	10%
Russian Federation	5% - 15%	10%	10%
Singapore	15%	10%	10%
Slovakia	15%	10%	10%
South Africa	5% - 15%	0% - 10%	5%
Spain	15%	10%	10%
Sri Lanka	15%	10%	10%
Sweden	15%	10%	10%
Switzerland	15%	10%	10%
Taiwan	10% - 15%	10%	12.5%
Thailand	15% - 20%	10% - 25%	15%
Turkey	5% - 15%	10%	10%
United Kingdom	0% - 15%	0% - 10%	5%
United States	0% - 15%	0% - 10%	5%
Vietnam	10% - 15%	10%	10%

## INTERMEDIARY OR REGIONAL HOLDING COMPANIES

Changes made to both the taxation of foreign income received or earned by Australian resident companies together with both an extensive network of tax treaties and CGT exemptions for overseas gains have made Australia a very competitive place to base intermediary or regional holding companies.

## TRANSFER PRICING

Recently, Australia overhauled its transfer pricing rules following a number of unsuccessful court cases. First, interim retrospective rules were introduced. Then, from 23 June 2013 completely new rules commenced. These rules are both complex and comprehensive and allow the ATO to adjust the outcome of transactions where it believes that non-arms-length prices have been charged to the detriment of the revenue.

While all taxpayers are required to keep comprehensive records for tax purposes, there is a special need to document transfer pricing decisions to establish that prices are reasonable and commercially justifiable.

This is a complex area on which specialist tax advice is recommended from your Meritas firm.

## THIN CAPITALISATION

Thin capitalisation rules operate to restrict interest deductions allowable against Australian source income for both foreign-controlled Australian investments (inbound investors) and Australian entities investing overseas (outbound investors) where the entity's debt exceeds certain levels.

The following changes apply from 1 July 2014.

- Generally the maximum permitted gearing for both inbound and outbound investors will be set at a debt-to-equity ratio of 1.5-to-1 or 60% debt to total assets (15-to-1 ratio for financial institutions or 93.75% debt to total assets).
- Taxpayers with annual interest deductions of less than AUD2 million will be exempt from the thin capitalisation rules.

## CONSOLIDATION RULES

These rules allow wholly owned corporate groups to prepare and lodge tax returns on a consolidated basis to reflect the fact that they generally operate as a single economic unit. Where consolidated returns are prepared, the head company acts as a representative taxpayer for the whole group and all losses can be offset against income derived by other group members. Similarly, the tax law disregards all intra-group transactions and allows the free movement of assets between group members without recognizing any taxable gains or losses or needing to meet any formal rollover requirements.

There are also discrete rules relating to certain Australian-resident wholly owned foreign subsidiaries of overseas parent companies known as MEC groups.

While the election to form a consolidated group is optional, once made it cannot be rescinded.

## GOODS AND SERVICES TAX

The Goods and Services Tax (GST) regime in Australia operates in a manner which is very similar to the GST regimes in Canada and New Zealand or the VAT regime in the United Kingdom.

GST in Australia is levied at the rate of 10% with exemptions for certain food stuffs, certain educational expenditure, medical expenditure, and some religious activities.

As in the countries mentioned above, the tax is intended to be levied on the final consumption of a good or service with the tax being progressively collected along the manufacturing and distribution chain.

## CUSTOMS DUTIES

Customs duty is levied on the importation into Australia of some goods. It is payable by the importer.

## FRINGE BENEFITS TAX

In Australia, if an employee receives a non-cash benefit as a consequence of his employment, then that benefit is taxed separately from income tax under a regime known as fringe benefits tax. Basically, the employer is assessed for the fringe benefits tax. The tax is calculated by reference to the value of fringe benefits paid to the employee.

As a consequence, many employees in Australia do not receive fringe benefits as part of their remuneration arrangements. Where an employee receives a taxable fringe benefit, the employer usually takes the amount of fringe benefits tax into consideration when determining the total remuneration package payable to the employee.

## OTHER TAXES

- **Stamp Duty**

This is levied by the states and territories. There is no federal stamp duty. Depending on the relevant state or territory, duty may be levied on:

- A transfer of property (including a transfer of land)
- A lease of land
- A mortgage or other security
- A transfer of shares (especially where the company is “land rich”)
- A transfer of a business (in some states)

This is not a comprehensive list. Generally speaking this is a tax which is payable by the purchaser. Many components of this tax are being phased out.

For instance, in Victoria, only transfers of land will attract stamp duty unless the company’s assets consist principally of land in which case the transfer of its shares may attract duty under the “land rich” provisions. However, in New South Wales, transfers of land, of business including intellectual property and shares in non-listed companies will attract duty, as will some mortgages.

- **Land Tax**

Land tax is an annual tax levied only by the states and territories on the value of a landholder's total holding of land in that state at a particular date, commonly 31 December. The tax is levied at a percentage of the value of all land owned by that landholder in the state. The maximum rate in Victoria is 2.25% for a landholder who holds land exceeding AUD3 million in value and a maximum rate of 2% applies in New South Wales.

Certain classes of land, for instance farming land and principal place of residence, may be exempt from the tax. Where land is used for income producing, the relevant land tax expense would generally be deductible for income tax purposes.

- **Payroll Tax**

This is a tax levied only by the states and territories on the wages and similar benefits paid by employers to their employees. It was generally not levied on payments to contractors but recent amendments now incorporate certain payments under "relevant contracts" in certain states.

Generally, payroll taxes will be deductible to an employer entity for income tax purposes.

# MERITAS FIRM CONTACTS

## AUSTRALIA

### AUSTRALIAN CAPITAL TERRITORY

Deakin

#### **Snedden Hall & Gallop Lawyers**

43-49 Geils Court  
Locked Bag 3003  
Deakin ACT 2600

*Dennis Martin*  
*lawyers@sneddenhall.com.au*  
Tel: +61 (2) 6285 8000  
*www.sneddenhall.com.au*

### NEW SOUTH WALES

Sydney

#### **Swaab Attorneys**

Level 1, 20 Hunter Street  
Sydney NSW 2000

*Fred Swaab*  
*fxs@swaab.com.au*  
*Mary E. Digiglio*  
*med@swaab.com.au*  
Tel: +61 (2) 9233 5544  
*www.swaab.com.au*

### VICTORIA

Melbourne

#### **Madgwicks**

Level 33, 140 William Street  
Melbourne VIC 3000

*Peter Kennedy*  
*peter.kennedy@madgwicks.com.au*  
Tel: +61 (3) 9242 4744  
*www.madgwicks.com.au*

### QUEENSLAND

Brisbane / Cairns / Townsville

#### **MacDonnells Law**

Cnr Shields & Grafton Streets  
PO Box 5046  
Cairns QLD 4870

*Russell Beer*  
*rbeer@macdonnells.com.au*  
*Luckbir Singh*  
*lsingh@macdonnells.com.au*  
Tel: +61 (7) 4030 0600  
*www.macdonnells.com.au*

### WESTERN AUSTRALIA

Perth

#### **Williams + Hughes Pty Ltd.**

25 Richardson Street  
Perth WA 6005

*Damian Quail*  
*damian.quail@whlaw.com.au*  
*Tully Carmady*  
*tully.carmady@whlaw.com.au*  
Tel: +61 (8) 9481 2040  
*www.whlaw.com.au*

### NEW ZEALAND

#### **Martelli McKegg**

Level 20, PWC Tower  
188 Quay Street  
Auckland 1141

*Mike Worsnop*  
*mcw@martellimckegg.co.nz*  
*Craig A. Nelson*  
*can@martellimckegg.co.nz*  
Tel: +64 (9) 379 7333  
*www.martellimckegg.co.nz*



800 Hennepin Avenue, Suite 600  
Minneapolis, Minnesota 55403 USA  
+1.612.339.8680 [www.meritas.org](http://www.meritas.org)

## Prepared by Meritas Law Firms

Meritas is an established network of 176 full-service law firms serving over 230 markets, all rigorously qualified, independent and collaborative. Connect with a Meritas law firm and benefit from local insight, local rates and world-class client service.

[www.meritas.org](http://www.meritas.org) enables direct access to Meritas law firms through a searchable database of lawyer skills and experience.

