



**The Institute of
Chartered Accountants
in Australia**

19 December 2002

Mr Gerry Antioch
Secretary to the Board of Taxation
C/ Treasury
Langton Crescent
PARKES ACT 2600

Dear Mr Antioch,

Re: Review of International Taxation Arrangements

During the Key Stakeholder Session of 18 November 2002, the Institute of Chartered Accountants in Australia ("ICAA") undertook to provide clarification and some additional information in regard to its submission of 31 October 2002 to the Board of Taxation on Treasury's Consultation Paper, "Review of International Taxation Arrangements" of August 2002.

1. Clarification of the ICAA's position on Option 3.3

The Board requested that the ICAA clarify its position in regard to option 3.3 (which was to consider whether additional countries should be included in the broad exemption country list, and to clarify the criteria for inclusion or exclusion).

In its submission of 31 October 2002, the ICAA stated that it supported an expansion of the broad exemption country ("BELC") list. The ICAA emphasized, however, that this should not go hand in hand with additional measures designed to attribute specified income as the ICAA is of the view that the trend should be to provide fully exempt status for income and capital gains arising in a BELC without the exceptions which currently apply to certain categories of income and gains (that presently over-complicate the rules).

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The submission went on to say that:

“Only income from non arms-length transactions and passive income arising from transactions which are not related to the core business should be potentially attributable and then, only if not “comparably taxed” outside Australia”.

In making this statement, the ICAA drew on past experience with the Australian Taxation Office, which had previously shown concern over such amounts (which explains the reference to “potentially attributable”).

The preference of the ICAA would be to have an unqualified expansion of the BELC listing as part of the Reform of International Tax Arrangements.

2. Example of the cost of expatriate employees

During the meeting, the ICAA undertook to provide an example to demonstrate the high cost of bringing expatriates, on moderate incomes, to Australia.

The appendix provides an example of the cost of bringing an assignee from the US to Australia (Sydney). In this “real life” example, the additional tax cost on a salary of \$US 65,000 was 53% of the base salary each year. This can be compared to the case of an assignee from the US to Singapore, where the additional tax cost on the same salary was 22% of base salary.

Therefore, in these examples, the tax cost of bringing an assignee to Australia was higher by approximately 30% of the base salary (i.e. equating to approximately \$A 34,000 per year), purely due to the Australian tax on the salary. This is despite the tax concessions on certain expatriate benefits (such as 'living away from home' housing). The additional cost of living in Singapore in these examples (higher than Sydney by approximately \$US 5,000) was not sufficient to mitigate the additional tax cost in Australia.

The above are examples only and as such, the ICAA recognizes that the Board may wish to survey this issue further to obtain more reliable data.

3. Does the current taxation of expatriates in Australia act as a deterrent?

The Board asked the ICAA whether it would be possible to provide data to support the view that the current taxation of expatriates acts as a deterrent for skilled foreigners of all levels – not just high level executives - to come to Australia.

This issue involves the interaction of personal tax rates on income and pre-assignment assets in a wide range of cases. Unfortunately, it has not been possible for us to research this issue in the time available. However, the ICAA would support the Board of Taxation undertaking such research as needed.

Yours sincerely,

Brian Sheppard
Tax Counsel

Karen Smith
Senior Taxation Consultant

APPENDIX – COST OF EXPATRIATES

The following are examples of the tax cost of bringing a US expatriate to Australia and to Singapore. All amounts are approximations.

Example 1

Cost of Assignee - from US to Australia (Sydney)

Assignee from US to Sydney for a 14 month assignment:

Base salary ¹	\$US 65,000
Cost of shipping and relocation	\$US 43,000
Cost of the 'on assignment' expenses	\$US 36,000
Additional tax cost on salary	\$US 34,450

Additional tax cost on salary equal to 53% of the base salary each year (this includes income tax on salary, FBT on health insurance and car).

Example 2:

Cost of Assignee - From US to Singapore

Base salary ¹	\$US 65,000
Cost of shipping and relocation	\$US 43,000
Cost of the 'on assignment' expenses	\$US 41,000
Additional tax cost on salary	\$US 14,300

Additional tax cost on salary equal to 22% of the base salary.

Comparing the Outcomes

The living expenses “on assignment” in Sydney are some \$US 5,000 lower than Singapore’s, in this case.

However the additional tax costs in Australia are some \$US 20,000 higher than Singapore’s.

Thus the additional all-up cost of the Australian posting in this case would be about \$US 15,000.

¹ Base salary = Gross salary before tax in home country (prior to tax equalization in country of assignment)