FOREWORD

A country’s tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions. This handy reference guide provides clients and professional practitioners with comprehensive tax and business information for 100 countries throughout the world.

As you will appreciate, the production of the WWTG is a huge team effort and I would like to thank all tax experts within PKF member firms who gave up their time to contribute the vital information on their country’s taxes that forms the heart of this publication. I would also like thank Richard Jones, PKF (UK) LLP, Kevin Reilly, PKF Witt Mares, and Kaarji Vaughan, PKF Melbourne for co-ordinating and checking the entries from countries within their regions.

The WWTG continues to expand each year reflecting both the growth of the PKF network and the strength of the tax capability offered by member firms throughout the world.

I hope that the combination of the WWTG and assistance from your local PKF member firm will provide you with the advice you need to make the right decisions for your international business.

Jon Hills
PKF (UK) LLP
Chairman, PKF International Tax Committee
jon.hills@uk.pkf.com
IMPORTANT DISCLAIMER

This publication should not be regarded as offering a complete explanation of the taxation matters that are contained within this publication.

This publication has been sold or distributed on the express terms and understanding that the publishers and the authors are not responsible for the results of any actions which are undertaken on the basis of the information which is contained within this publication, nor for any error in, or omission from, this publication.

The publishers and the authors expressly disclaim all and any liability and responsibility to any person, entity or corporation who acts or fails to act as a consequence of any reliance upon the whole or any part of the contents of this publication.

Accordingly no person, entity or corporation should act or rely upon any matter or information as contained or implied within this publication without first obtaining advice from an appropriately qualified professional person or firm of advisors, and ensuring that such advice specifically relates to their particular circumstances.

PKF International is a network of legally independent member firms administered by PKF International Limited (PKFI). Neither PKFI nor the member firms of the network generally accept any responsibility or liability for the actions or inactions on the part of any individual member firm or firms.
PREFACE

The PKF Worldwide Tax Guide 2012 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of 100 of the world’s most significant trading countries. In compiling this publication, member firms of the PKF network have based their summaries on information current as of 30 September 2011, while also noting imminent changes where necessary.

On a country-by-country basis, each summary addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country’s personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not to be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

In addition to the printed version of the WWTG, individual country taxation guides are available in PDF format which can be downloaded from the PKF website at www.pkf.com

PKF INTERNATIONAL LIMITED
APRIL 2012

©PKF INTERNATIONAL LIMITED
ALL RIGHTS RESERVED
USE APPROVED WITH ATTRIBUTION
PKF International Limited (PKFI) administers the PKF network of legally independent member firms. There are around 300 member firms and correspondents in 440 locations in around 125 countries providing accounting and business advisory services. PKFI member firms employ around 2,200 partners and more than 21,400 staff.

PKFI is the 10th largest global accountancy network and its member firms have $2.6 billion aggregate fee income (year end June 2011). The network is a member of the Forum of Firms, an organisation dedicated to consistent and high quality standards of financial reporting and auditing practices worldwide.

Services provided by member firms include:

- Assurance & Advisory
- Corporate Finance
- Financial Planning
- Forensic Accounting
- Hotel Consultancy
- Insolvency – Corporate & Personal
- IT Consultancy
- Management Consultancy
- Taxation

PKF member firms are organised into five geographical regions covering Africa; Latin America; Asia Pacific; Europe, the Middle East & India (EMEI); and North America & the Caribbean. Each region elects representatives to the board of PKF International Limited which administers the network. While the member firms remain separate and independent, international tax, corporate finance, professional standards, audit, hotel consultancy, insolvency and business development committees work together to improve quality standards, develop initiatives and share knowledge and best practice across the network.

Please visit www.pkf.com for more information.
STRUCTURE OF COUNTRY DESCRIPTIONS

A. TAXES PAYABLE

FEDERAL TAXES AND LEVIES
COMPANY TAX
CAPITAL GAINS TAX
BRANCH PROFITS TAX
SALES TAX/VALUE ADDED TAX
FRINGE BENEFITS TAX
LOCAL TAXES
OTHER TAXES

B. DETERMINATION OF TAXABLE INCOME

CAPITAL ALLOWANCES
DEPRECIATION
STOCK/INVENTORY
CAPITAL GAINS AND LOSSES
DIVIDENDS
INTEREST DEDUCTIONS
LOSSES
FOREIGN SOURCED INCOME
INCENTIVES

C. FOREIGN TAX RELIEF

D. CORPORATE GROUPS

E. RELATED PARTY TRANSACTIONS

F. WITHHOLDING TAX

G. EXCHANGE CONTROL

H. PERSONAL TAX

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES
INTERNATIONAL TIME ZONES

AT 12 NOON, GREENWICH MEAN TIME, THE STANDARD TIME ELSEWHERE IS:

A
Algeria ........................ 1 pm
Angola ........................ 1 pm
Argentina ........................ 9 am
Australia -
   Melbourne .................. 10 pm
   Sydney ...................... 10 pm
   Adelaide ................... 9.30 pm
   Perth ........................ 8 pm
Austria ........................ 1 pm

B
Bahamas ........................ 7 am
Bahrain ........................ 3 pm
Belgium ........................ 1 pm
Belize .......................... 6 am
Bermuda ........................ 8 am
Brazil .......................... 7 am
British Virgin Islands ......... 8 am

C
Canada -
   Toronto ........................ 7 am
   Winnipeg ........................ 6 am
   Calgary ........................ 5 am
   Vancouver ........................ 4 am
Cayman Islands ........................ 7 am
Chile ............................ 8 am
China - Beijing ........................ 10 pm
Colombia ........................ 7 am
Croatia ............................ 1 pm
Cyprus ............................ 2 pm
Czech Republic ........................ 1 pm

D
Denmark ........................ 1 pm
Dominican Republic ............ 7 am

E
Ecuador ........................... 7 am
Egypt .............................. 2 pm
El Salvador ........................ 6 am
Estonia ............................ 2 pm
F
Fiji ................................. 12 midnight
Finland ........................... 2 pm
France ............................. 1 pm

G
Gambia (The) ...................... 12 noon
Georgia ............................ 3 pm
Germany ........................... 1 pm
Ghana ............................... 12 noon
Greece .............................. 2 pm
Grenada ............................. 8 am
Guatemala ........................... 6 am
Guernsey ............................ 12 noon
Guyan .............................. 7 am

H
Hong Kong ....................... 8 pm
Hungary ............................ 1 pm

I
India ............................... 5.30 pm
Indonesia ........................ 7 pm
Ireland ............................. 12 noon
Isle of Man ........................ 12 noon
Israel .............................. 2 pm
Italy ............................... 1 pm

J
Jamaica ............................ 7 am
Japan ............................... 9 pm
Jersey .............................. 12 noon
Jordan .............................. 2 pm

K
Kazakhstan ....................... 5 pm
Kenya ............................... 3 pm
Korea ............................... 9 pm
Kuwait ............................. 3 pm

L
Latvia .............................. 2 pm
Lebanon ............................ 2 pm
Liberia ............................. 12 noon
Luxembourg ........................ 1 pm

M
Malaysia ........................... 8 pm
Malta ............................... 1 pm
Mauritius ........................... 4 pm
Mexico .............................. 6 am
Morocco ............................ 12 noon

N
Namibia ............................ 2 pm
Netherlands (The) ............... 1 pm
New Zealand ........................ 12 midnight
Nigeria ............................. 1 pm
Norway ............................. 1 pm

O
Oman ............................... 4 pm

P
Panama ............................. 7 am
Papua New Guinea .................. 10 am
Peru ............................... 7 am
Philippines ........................ 8 pm
Poland ............................. 1 pm
Portugal ........................... 1 pm
Puerto Rico ........................ 8 am
<table>
<thead>
<tr>
<th>Country</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qatar</td>
<td>8 am</td>
</tr>
<tr>
<td>Romania</td>
<td>2 pm</td>
</tr>
<tr>
<td>Russia -</td>
<td></td>
</tr>
<tr>
<td>Moscow</td>
<td>3 pm</td>
</tr>
<tr>
<td>St Petersburg</td>
<td>3 pm</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>12 noon</td>
</tr>
<tr>
<td>Singapore</td>
<td>7 pm</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>1 pm</td>
</tr>
<tr>
<td>Slovenia</td>
<td>1 pm</td>
</tr>
<tr>
<td>South Africa</td>
<td>2 pm</td>
</tr>
<tr>
<td>Spain</td>
<td>1 pm</td>
</tr>
<tr>
<td>Sweden</td>
<td>1 pm</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1 pm</td>
</tr>
<tr>
<td>Taiwan</td>
<td>8 pm</td>
</tr>
<tr>
<td>Thailand</td>
<td>8 pm</td>
</tr>
<tr>
<td>Tunisia</td>
<td>12 noon</td>
</tr>
<tr>
<td>Turkey</td>
<td>2 pm</td>
</tr>
<tr>
<td>Turks and Caicos Islands</td>
<td>7 am</td>
</tr>
<tr>
<td>Uganda</td>
<td>3 pm</td>
</tr>
<tr>
<td>Ukraine</td>
<td>2 pm</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>4 pm</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>(GMT) 12 noon</td>
</tr>
<tr>
<td>New York City</td>
<td>7 am</td>
</tr>
<tr>
<td>Washington, D.C.</td>
<td>7 am</td>
</tr>
<tr>
<td>Chicago</td>
<td>6 am</td>
</tr>
<tr>
<td>Houston</td>
<td>6 am</td>
</tr>
<tr>
<td>Denver</td>
<td>5 am</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>4 am</td>
</tr>
<tr>
<td>San Francisco</td>
<td>4 am</td>
</tr>
<tr>
<td>Uruguay</td>
<td>9 am</td>
</tr>
<tr>
<td>Venezuela</td>
<td>8 am</td>
</tr>
<tr>
<td>Vietnam</td>
<td>7 pm</td>
</tr>
</tbody>
</table>
A. TAXES PAYABLE

FEDERAL TAXES AND LEVIES

COMPANY TAX

Australian resident companies are subject to company income tax on their income derived from all sources. Non-resident companies are required to pay income tax only on Australian-sourced income.

Resident companies are those that are incorporated in Australia or those that carry on business in Australia and either have their central management and control in Australia or their voting power controlled by shareholders who are Australian residents.

The tax year runs from 1 July to 30 June. Companies’ financial years usually coincide with the tax year if they wish but this will require additional costs of preparing another set of accounts based on the tax year. Alternatively, if a taxpayer has a good reason for having a financial year other than 1 July to 30 June they can apply to the Australian Tax Office to have a substituted accounting period (SAP) and align the tax year with their financial year. The Australian Tax Office will generally accept applications for an SAP where an Australian subsidiary wants to align its tax year with its foreign parent company’s financial year.

The company tax rate for the 2011/2012 tax year is 30% of the company’s taxable income.

Companies are generally required to ‘self-assess’ their likely tax liability in a financial year and pay the tax by quarterly instalments with the final tax liability being reconciled in an annual tax return. ‘Likely tax’ is the latest estimate of tax payable made by the company in a current financial year. If no estimate is made, ‘likely tax’ is the tax assessed in the preceding year.

Company tax is payable on a quarterly basis. Companies that are not required to report their goods and services tax (GST) on a monthly basis and with income tax payable of less than AUD $8,000 for the most recent income year can elect to pay an annual instalment of tax rather than quarterly instalments. Generally, the annual payment date is 21 October when the income year ends on 30 June.

Quarterly company tax is payable within 21 days after the end of each quarter of the financial year. However, where taxpayers are eligible to pay other quarterly obligations on a deferred basis (namely those entities that are required to pay GST on a quarterly basis); the due date is the 28th day after the end of the quarter (except for the December quarter in which case payment date is 28 February).

There are two methods of working out the quarterly payment amount as follows:

- **Instalment Income Option** – the quarterly payment amount is the amount of gross assessable income earned for that quarter (less capital gains) multiplied by the instalment rate. The instalment rate is advised by the Tax Office and is based on the company tax paid on the most recent tax assessment divided by the company’s turnover (less capital gains). This method is available to all taxpayers.
• **GDP adjustment notional tax option** – the quarterly payment income amount is based on the assessable income figure from the most recent tax return multiplied by a GDP factor. The income amount is advised by the Tax Office. This method is available for individual taxpayers or other entities where their most recent assessed taxable income was under AUD $1 million. Certain categories of taxpayers such as farmers, sportspeople and artists may meet their liability for these four instalments by making two payments per year.

**BRANCH PROFITS TAX**

There is no branch profits tax in Australia. However, Australian branches of foreign companies will generally only be taxed on Australian-sourced income at the prevailing company tax rate.

**GOODS AND SERVICES TAX**

All entities that carry on an enterprise in Australia are required to register for the goods and services tax (GST) if their annual turnover meets the registration turnover threshold of AUD $75,000 or AUD $150,000 for not-for-profit organisations.

Once registered, entities are required to charge 10% GST on all goods and services that they supply within Australia, unless the supplies are specifically excluded, such as education, health, child care services and certain types of food.

Registered entities are entitled to claim an ‘input tax credit’ equal to the amount of GST paid on purchases, provided that those purchases were used for a ‘creditable purpose’ in carrying on their enterprise. This means that the cost of the GST is effectively borne solely by the end user.

However, there are two exceptions to the general rule:

1. **GST-free supplies (zero rated supplies):** These supplies are provided by enterprises to their customers free of GST, and the enterprise is also allowed to claim input tax credits on its creditable business acquisitions. Examples include education and health providers and certain types of food.

2. **Input taxed supplies:** These supplies are provided by enterprises to their customers free of GST but the enterprise is not allowed to claim any input tax credits on its creditable business acquisitions, effectively treating the supplier as an end user. Examples include financial services providers and residential accommodation supplies.

The GST collected from customers is remitted to the Federal Government on a quarterly or monthly basis, depending on the size of the entity’s annual turnover.

**FRINGE BENEFITS TAX (FBT)**

Fringe benefits tax is a Federal tax that is payable by resident and non-resident employers on certain benefits that are provided to their employees. The tax is levied at a rate of 46.5% on the ‘grossed-up taxable value’ of each benefit that is provided to employees. FBT is separate from income tax.

In calculating the ‘grossed-up taxable value’ of a fringe benefit, the provider must first determine whether they are entitled to a GST input tax credit on that benefit. If so entitled, the value of the benefit must be ‘grossed up’ using a rate of 2.0647. In all other cases, the value of the benefit is grossed up using a rate of 1.8692.

The grossing up methodology effectively levies tax on the benefit at the rate of tax that an employee on the highest marginal tax rate would pay on the cash salary required for them to pay for the benefit out of after tax salary and taking into account any GST input tax credit the employer can claim on providing the benefit.

Employees can make non-tax deductible contributions towards the private use component of a benefit to reduce the taxable value, thereby reducing the FBT payable.

The FBT year runs from 1 April to 31 March. If the prior year’s FBT liability is AUD $3,000 or more, it is payable on a quarterly basis on the same payments dates as quarterly company tax (see above). If the total FBT liability is less than AUD $3,000, an annual payment is required instead. The annual FBT return is due for lodgement by 21 May of each year.

Any FBT paid in Australia by an employer is generally deductible for Australian income tax purposes.

**SUPERANNUATION CONTRIBUTIONS**

Employers are required to make superannuation contributions on behalf of their employees at a rate of 9% of the employee’s salary and wages. Contributions are required on a quarterly basis.
If insufficient contributions are made, employers are liable for a Superannuation Guarantee Charge. The ‘charge’ includes the shortfall in the contributions together with an interest component and an administration fee. Employers who have a superannuation guarantee shortfall are required to lodge a Superannuation Guarantee Statement together with the ‘charge’ on the 28th day of the second month following the end of the quarter.

Superannuation contributions made by employers for their employees are generally income tax deductible. However, the employee is taxed at the rate of 31.5% on contributions in excess of AUD $25,000 p.a. if the employee is under the age of 50; or AUD $50,000 p.a. if the employee is aged 50 or over.

OTHER TAXES

Other Federal taxes include:

(1) Customs & Excise duties on certain imported items.

(2) Carbon pricing scheme - will initially impose a fixed price on carbon pollution commencing 1 July 2012. This scheme will be replaced with a carbon price to be determined by the market from 1 July 2015.

Businesses responsible for direct greenhouse gas emissions of 25,000 tonnes or more of carbon dioxide equivalence will be required to purchase permits from the Government equivalent to the quantity of carbon pollution they release. The initial price will be $23 per tonne increasing to $24.15 on 1 July 2013 and $25.40 on 1 July 2014.

Use of liquid fuels, such as petroleum, diesel and LPG are generally not subject to the carbon pricing system but will be subject to fuel excise increases of an amount similar to the carbon price. The fuel excise increases will not be levied on fuel used by householders, small businesses, agricultural, forestry and fishing industries. Heavy on-road transport vehicles will also be excluded from the fuel excise increases until 1 July 2014.

(3) Petroleum resource rent tax – this is currently for certain offshore petroleum projects but from 1 July 2012 the tax will be extended to all offshore and onshore oil and gas production.

(4) Minerals resource rent tax – for coal and iron ore projects in Australia from 1 July 2012.

(5) Excise on fuel, tobacco and alcohol.

LOCAL TAXES

The States and Territories of Australia impose the following taxes:

(1) Stamp duty: payable on specified transactions, including certain transfers of property.

(2) Payroll tax: payable by employers who have total payrolls exceeding specified thresholds which vary from State to State. Payroll tax rates between each State and Territory varies from 4.75% – 6.85%.

(3) Land and property taxes.

(4) Workcare/workers compensation levies or premiums.

B. DETERMINATION OF TAXABLE INCOME

Taxable income equals assessable income less allowable deductions. Assessable income includes ordinary income under common law and statutory income but does not include specifically exempt or non-assessable income. Generally, to be deductible, losses and outgoings must relate to the gaining or producing of assessable income. Some items are specifically non-deductible, such as penalties and fines. Capital expenses are generally non-deductible but may be deducted over time as a capital allowance or included in the capital gains tax (CGT) cost base. Expenses incurred in producing exempt income are also non-deductible. It is possible to claim a portion of expense items that have dual purposes.

Special rules apply in respect of the categories listed below.

CAPITAL ALLOWANCES

Plant, equipment and other depreciable items are generally written off over their effective life. There are alternative rules for small business taxpayers with average turnover less than AUD $2 million. Taxpayers may self-determine the effective life of plant to calculate the tax depreciation rate or instead may rely on tax rates published by the Commissioner of Taxation.

Either the straight-line or diminishing-value methods of depreciation can be used for each item of plant and is determined as follows:

(1) Straight-line method: 100% ≈ Asset’s effective life.

(2) Diminishing-value method: 150% ≈ Asset’s effective life if acquired before 10 May 2006 or 200% if acquired on or after 10 May 2006.
Motor vehicles are subject to an indexed depreciation cost limit. The limit for the 2011/2012 financial year is AUD $57,466.

Taxpayers can elect to ‘pool’ plant items costing less than AUD $1,000 and depreciate them at a diminishing-value rate of 37.5%. Previously depreciated items whose value has decreased to less than AUD $1,000 can also be added to the pool. Where the pooling option is not exercised, plant is to be depreciated over its estimated effective life.

An immediate write-off for depreciating assets costing less than $1,000 and pooling of other depreciating assets is available for small business entities. From 1 July 2012, the immediate write-off is intended to be increased to $6,500 for assets (including motor vehicles). An immediate write-off of the first $5,000 will also be available for motor vehicles costing $6,500 or more with the balance being pooled.

A 2.5% or 4% special write-off is available on a straight-line basis for the construction costs of buildings used for income-producing purposes and traveller accommodation, depending on their date of construction.

Most business related capital expenses that are not otherwise deductible; included in the cost of depreciable assets; or included in the CGT cost base of an asset; are deductible over five years.

Stock/Inventory

All trading stock on hand at the beginning of the year of income and all trading stock on hand at the end of that income year must be taken into account in determining taxable income.

Each item of inventory must be valued at the end of each financial year at:
- cost price valued at full absorption cost
- market selling value (the current selling value in the taxpayer’s trading market) or replacement cost.

The closing value adopted becomes the opening value at the beginning of the following income year. Acceptable valuation methods include FIFO, average cost, standard costing and retail inventory method. Non-acceptable valuation methods include LIFO and the base stock method. Certain small business taxpayers who have an annual turnover of less than AUD $2 million are only required to make such valuations where the value of their stock changed by more than AUD $5,000.

Capital Gains and Losses

Net capital gains are generally included in the determination of assessable income.

Capital losses cannot be deducted from assessable income and can only be offset against capital gains. Capital losses can be carried forward indefinitely to offset against future capital gains.

Net capital gains are determined by deducting the cost base of an asset from the proceeds received on disposal of that asset. The purchase price of an asset purchased prior to 21 September 1999 can be adjusted for inflation indexation to the quarter ending 30 September 1999. Indexation is not available for assets purchased after 21 September 1999.

In lieu of indexation, individuals and trustees may be eligible for a 50% reduction in their assessable capital gain if certain conditions are met. Complying superannuation funds are eligible for a 1/3 discount. This reduction is not available for companies.

Other exemptions from capital gains tax may also be available, such as the main residence exemption; gains from foreign branches; or small business exemptions for businesses that satisfy certain criteria.

Foreign residents are exempt from Australian CGT except on Australian real property; business assets used in an Australian permanent establishment (PE); or equity interests in Australian or foreign companies or trusts with substantial interests in Australian real property either directly or indirectly through interposed entities. Australian real property includes Australian land and mining, quarrying and prospecting rights over Australian land.

Dividends

In general, dividends received by resident shareholders from resident companies are taxable but grossed up for any franking credits attached. The franking credits are equivalent to the tax paid by the company on its profits out of which the dividend was paid. However, the resident shareholders are allowed a tax offset of tax equal to the amount of any franking credits on the dividend.
Dividends received from non-resident companies do not qualify for this tax offset but may be entitled to a foreign tax credit (see foreign tax relief below). Alternatively, the dividend may be tax-exempt if the recipient is an Australian company that has a 10% or greater interest in the foreign company.

Dividends paid by non-resident companies in certain foreign countries are also exempt to the extent that they represent profits already taxed in Australia under Australia’s Controlled Foreign Corporation (CFC) rules.

Dividends paid by resident companies to non-resident shareholders are not subject to income tax but may be subject to withholding tax except to the extent that the dividends are franked (that is, have been paid out of Australian-taxed profits).

Payments of dividends are not generally tax deductible.

**INTEREST DEDUCTIONS**

Interest is generally deductible to the extent it relates to funds borrowed for income-producing purposes.

Interest deductions may be restricted by the thin capitalisation provisions. The thin capitalisation rules seek to deny deductions for interest payments if the taxpayer’s debt-to-equity ratio exceeds the ‘safe harbour’ ratio of 3:1. An exception to this rule is where the company can satisfy an ‘arm’s length test’, which focuses on the company’s likely borrowings if it had acted at arm’s length and what independent lenders would lend to the company on arm’s length terms.

The thin capitalisation provisions apply to foreign controlled Australian entities and the inward investments of foreign nationals and Australian-based entities with foreign investments. A de-minimis rule ensures that all corporate entities and their associates (regardless of their nature or business) which claim no more than AUD $250,000 in debt deductions per income year will not be subject to the thin capitalisation rules.

**LOSSES**

A tax loss is the excess of allowable deductions over assessable income (not including exempt income) and can be carried forward indefinitely to offset against future taxable income. For companies and trusts the deductibility of losses is restricted by a ‘continuity of ownership’ test (more than 50% of voting, dividend and capital rights). Alternatively, the loss is deductible if the company passes a ‘same business’ test.

Losses cannot be carried back.

Losses cannot be transferred between entities. However, wholly owned corporate groups that elect to be a consolidated group effectively can transfer losses as the group is taxed as a single entity.

**FOREIGN SOURCED INCOME**

(i) Controlled Foreign Corporations (CFCs): Australia has a CFC regime which is designed to ensure certain types of passive and associated party income of a CFC is included in the controlling Australian resident’s taxable income each financial year. In general, a foreign company will be regarded as a CFC where:

- five or fewer Australian residents hold at least a 50% interest in the foreign corporation or have de facto control of the foreign entity
- an Australian entity (and its associates) has 40% or greater control in the foreign corporation, unless they can prove that their interest is not a controlling interest or
- irrespective of the interests in a foreign company, a group of five or fewer Australian entities (either alone or together with associates) has actual control of the company.

CFCs in seven listed countries (USA, UK, France, Germany, Japan, Canada and New Zealand) are largely exempted from the CFC rules. The Australian Government has repealed the Foreign Investment Fund (FIF) rules. There are several exemptions to the CFC rules, including an active business exemption. The Government is currently reviewing the CFC provisions with a view to simplifying the rules.

(ii) Most foreign branch profits and capital gains of a resident company are generally not taxed when the income or gain is derived in carrying on a business through a permanent establishment in the following listed countries: UK, US, Canada, France, Germany, Japan and New Zealand. Also losses from branches in the countries listed above cannot be claimed. Foreign branches of resident companies in other countries (unlisted countries) are generally not subject to tax on profits or gains where the income is from an ‘active business’ and for capital gains where the company used the asset wholly or mainly in an active business. Associated losses will also not be claimable.
CONDUIT FOREIGN INCOME
The conduit foreign income rules allow foreign income and certain foreign capital gains to flow through Australian companies and other interposed entities to foreign residents without being taxed in Australia.

INCENTIVES
Specific write-offs are provided for the mining and primary production industries. Expenditure on research and development also qualifies for accelerated deductions.

Special taxation treatment is also afforded to investment in innovative Australian companies through a "venture capital tax concession".

OTHER
(i) Debt Forgiveness: Where a commercial debt is forgiven, special provisions operate in some circumstances to effectively tax the borrower on the benefit received as a result of the forgiveness of the debt. The “net forgiven amount” is not included directly in the borrower’s assessable income but is applied against the borrower’s tax attributes in the following order:
   (1) Reduction of revenue losses
   (2) Reduction of net capital losses
   (3) Reduction of deductions for particular expenditure
   (4) Reduction of the cost base of certain assets.
(ii) Debt/Equity Rules: There are special debt equity rules that determine what an equity interest is for a company and what a debt is. The rules determine whether a return on a debt or equity interest in an entity may be frankable and non-deductible (like a dividend) or may be deductible to the entity and not frankable (like interest). Broadly speaking, the rules are based on the substance of the arrangement rather than its legal form.
(iii) Taxation of Foreign Exchange (forex) Gains or Loss: Special rules tax forex gains and allow tax deductions for forex losses. The rules apply to transactions where there is a disposal of foreign currency or a disposal of a right to foreign currency, a ceasing of a right or obligation to receive foreign currency, or a ceasing of a right or obligation to pay foreign currency. These provisions will not apply where the taxpayer has made certain elections.

C. FOREIGN TAX RELIEF
Where foreign sourced income is included in a taxpayer’s assessable income, foreign income tax offsets are available at the lesser of the foreign tax paid or the Australian tax payable. For example, any withholding tax paid on an assessable dividend from a foreign company will generally be allowed as a foreign income tax offset.

D. CONSOLIDATED CORPORATE GROUPS
Wholly-owned groups of Australian companies and trusts can elect to have their income tax liability calculated on a consolidated basis. This means that the entire group is treated and taxed as a single corporate taxpayer.

Where the parent of Australian subsidiary entities is a foreign entity, the consolidation regime allows for the Australian subsidiary entities to be grouped under the consolidation regime where certain conditions are met.

E. RELATED PARTY TRANSACTIONS
Non-arm’s length international profit-shifting arrangements and other international transactions between related parties are governed by transfer pricing rules which give the Commissioner of Taxation the power to calculate the income tax payable based on arm’s length prices.

F. WITHHOLDING TAXES
Withholding tax must be deducted from interest, royalties and dividends (to the extent they are not franked) paid to non-residents. Liability for the remittance of withholding taxes rests with the payer of such amounts. Withholding tax is collected through the PAYG system and is determined according to the payer’s PAYG withholding status. The payer is also required to lodge an annual report with the Commissioner of Taxation where such amounts have been withheld during the financial year.

The relevant withholding tax rates are:
1. Dividends – franked 0%
2. Dividends – unfranked 0 – 15% (treaty countries); 30% (non-treaty countries)
3. Interest 10%
4. Royalties 5% – 15% (treaty countries); 30% (non-treaty countries)

G. EXCHANGE CONTROL

Where more than AUD $10,000 of Australian currency is physically taken out of Australia, the departing individual must report this to an Australian Customs Officer or to the Australian Transaction Reports and Analysis Centre (AUSTRAC). Equivalent amounts of foreign currency that are brought into Australia must also be reported.

H. PERSONAL TAX

Income tax is payable by Australian resident individuals on non-exempt income derived from worldwide sources. Non-resident individuals are only required to pay tax on Australian-sourced income. Residency is generally determined by reference to common law principles of residence. However an individual can also be deemed an Australian resident if the individual’s domicile is in Australia (unless they have a permanent place of abode outside Australia) or where the individual has spent more than one half of the relevant year of income in Australia (unless their usual place of abode is outside Australia and they do not intend to take up residence in Australia).

Individuals that become residents for a short time may be eligible for the temporary resident tax exemptions on their foreign income and capital gains. If they are holders of a temporary resident visa (generally for up to four years but may be longer), they will not be taxed on foreign-sourced income unless the income relates to employment or services rendered while they are a resident of Australia. In addition, temporary residents are not taxed on capital gains except for gains on ‘Taxable Australian Property’ (see capital gains section above).

Income tax is payable on taxable income which is the ‘excess’ of assessable income less allowable deductions. Assessable income includes business income, employment income, capital gains on certain assets, dividends, rent and interest. Allowable deductions include outgoings incurred in gaining or producing assessable income such as interest expenses and statutory deductions such as tax-deductible gifts to specified charitable entities.

Most individual taxpayers that are employees will generally have Pay-As-You-Go (PAYG) tax instalments withheld from their salary or wage payments by their employers. Most individuals who are either self employed or who earn non-salary income are required to make interim payments of tax during the financial year. The amount of these instalments is calculated using the same method outlined at item A above for companies. Individuals with likely tax of less than AUD $8,000 can elect to make an annual payment, otherwise interim payments are generally required either 21 days after the payment period (or 28 days if they are deferred business activity statement (BAS) payers).

A 1.5% levy, called the Medicare Levy, is payable by resident individual taxpayers. This levy covers basic hospital and medical expenses for all Australian residents and is assessed on the taxable income of resident individual taxpayers with no maximum ceiling on the amount payable. Low income taxpayers may be eligible for an exemption or reduced levy.

Higher income individuals without private health insurance are subject to an additional 1% Medicare Levy Surcharge. A 30% rebate is available to resident taxpayers for the cost of private health insurance.

A low income tax offset of AUD $1,500 is available to taxpayers with a taxable income of less than AUD $30,001. This tax offset is phased out when taxable income reaches AUD $67,500.

Various other tax offsets are also available to resident individual taxpayers such as medical expenses rebate, zone offsets, dependents and spouse rebates, and superannuation offset.

The tax rates for Australian individual residents and non-residents in the 2011/2012 financial year are outlined as follows:
Resident individuals – rates 2010–2011

<table>
<thead>
<tr>
<th>Taxable income (AUD $)</th>
<th>Tax payable (AUD $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 – $6,000</td>
<td>$Nil</td>
</tr>
<tr>
<td>$6,001 – $37,000</td>
<td>$Nil + 15% over $6,000</td>
</tr>
<tr>
<td>$37,001 – $80,000</td>
<td>$4,650 + 30% over $37,000</td>
</tr>
<tr>
<td>$80,001 – $180,000</td>
<td>$17,550 + 37% over $80,000</td>
</tr>
<tr>
<td>$180,000 +</td>
<td>$54,550 + 45% over $180,000</td>
</tr>
</tbody>
</table>

Flood Levy

The Australian Government has imposed a flood levy to help pay for reconstruction of infrastructure following extensive flooding in various parts of Australia in 2010 and 2011.

For 2011/2012 the flood levy is payable by resident individuals on a sliding scale according to their taxable income as follows:

<table>
<thead>
<tr>
<th>Taxable income (AUD $)</th>
<th>Tax payable (AUD $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $50,000</td>
<td>$Nil</td>
</tr>
<tr>
<td>$50,001 - $100,000</td>
<td>0.5% of taxable income between $50,000 - $100,000 i.e. 1/2 cent for each $1 over $50,000</td>
</tr>
<tr>
<td>Over $100,000</td>
<td>1% of taxable income over $100,000 i.e. $250 + 1 cent for each $1 over $100,000</td>
</tr>
</tbody>
</table>

Non-resident individuals – rates 2010–2011

<table>
<thead>
<tr>
<th>Taxable income (AUD $)</th>
<th>Tax payable (AUD $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 – $37,000</td>
<td>29%</td>
</tr>
<tr>
<td>$37,001 – $80,000</td>
<td>$10,730 + 30% over $37,000</td>
</tr>
<tr>
<td>$80,001 – $180,000</td>
<td>$23,630 + 37% over $80,000</td>
</tr>
<tr>
<td>$180,000 +</td>
<td>$60,630 + 45% over $180,000</td>
</tr>
</tbody>
</table>

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

<table>
<thead>
<tr>
<th>Dividends (%)</th>
<th>Interest (%)</th>
<th>Royalties (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
</tr>
<tr>
<td>Resident corporations or individuals:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-resident corporations or individuals of non-treaty countries:</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>Treaty Countries:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>10 or 15</td>
<td>12</td>
</tr>
<tr>
<td>Austria</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Belgium</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Canada</td>
<td>5 or 15</td>
<td>10</td>
</tr>
<tr>
<td>China</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>5 or 15</td>
<td>10</td>
</tr>
<tr>
<td>Denmark</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>East Timor</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Fiji</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>Finland</td>
<td>0, 5 or 15</td>
<td>10</td>
</tr>
<tr>
<td>France</td>
<td>0, 5 or 15</td>
<td>0 or 10</td>
</tr>
<tr>
<td>Germany</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Dividends (%)</td>
<td>Interest (%)</td>
<td>Royalties (%)</td>
</tr>
<tr>
<td>---------------</td>
<td>--------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Greece</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>Hungary</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>India</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Indonesia</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Ireland</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Italy</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Japan</td>
<td>0, 5 or 10</td>
<td>0 or 10</td>
</tr>
<tr>
<td>Kiribati</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>Korea</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0 or 15</td>
<td>15</td>
</tr>
<tr>
<td>Mexico</td>
<td>0 or 15</td>
<td>0, 10 or 15</td>
</tr>
<tr>
<td>Malta</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Netherlands</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>New Zealand</td>
<td>0, 5 or 15</td>
<td>0 or 10</td>
</tr>
<tr>
<td>Norway</td>
<td>0, 5 or 15</td>
<td>10</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>15 or 20</td>
<td>10</td>
</tr>
<tr>
<td>Philippines</td>
<td>15 or 25</td>
<td>10 or 15</td>
</tr>
<tr>
<td>Poland</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Romania</td>
<td>5 or 15</td>
<td>10</td>
</tr>
<tr>
<td>Russia</td>
<td>5 or 15</td>
<td>10</td>
</tr>
<tr>
<td>Singapore</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>South Africa</td>
<td>5 or 15</td>
<td>0 or 10</td>
</tr>
<tr>
<td>Spain</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Sweden</td>
<td>15</td>
<td>0 or 10</td>
</tr>
<tr>
<td>Switzerland</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Taiwan/Taipei</td>
<td>10 or 15</td>
<td>10</td>
</tr>
<tr>
<td>Thailand</td>
<td>15 or 20</td>
<td>10 or 25</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0, 5, 15</td>
<td>0 or 10</td>
</tr>
<tr>
<td>United States</td>
<td>0, 5, 15 or 30</td>
<td>0,10 or 15</td>
</tr>
<tr>
<td>Vietnam</td>
<td>10 or 15</td>
<td>10</td>
</tr>
</tbody>
</table>

Notes to Withholding Tax rate schedule:
1. Franked dividends paid by Australian resident companies to non-residents are exempt from dividend withholding tax.
2. Non-resident interest withholding tax in Australia is limited to 10% under Australian tax law.
3. Withholding tax of 30% is generally imposed on the gross amount of royalties paid from Australia to non-residents. A reduced rate is applicable to residents of treaty countries as listed above.

The various rates may change according to categories and circumstances. Taxpayers should consult the applicable DTAs to ascertain the applicable rate.