This report provides helpful information on the current business environment in Australia. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.

Global Banking Service

Report on Australia

Contents

RBC Royal Bank®

Important to Know

Official language

- English

Currency

- Dollar (AUD)

Bank holidays

2010	
January	1, 26
April	2, 3, 5, 26
June	14
July	21
August	2
October	3
December	26,27

Source: www.goodbusinessday.com.

Types of Business Structure

Under Australian law, there are several business structures available. There is no minimum or maximum nominal or paid-up share capital required.

Public limited liability company

Ltd. (Limited). This is a company whose shares are not registered to their owners and are tradable on a public stock market. No minimum or maximum nominal or paid-up share capital is required. A limited company must register with the Australian Securities and Investments Commission (ASIC).

Private limited liability company

Pty. Ltd. (Proprietary Limited). This is a company whose shares are registered to their owners and therefore are not publicly tradable. This type of company may have no more than 50 shareholders. No minimum or maximum nominal or paid-up share capital is required. A limited company must register with the ASIC.

General partnership

In a general partnership, all partners have full and joint liability. This requires no minimum share capital. A partnership is formed with at least two but no more than 20 partners.

Limited partnership

In a limited partnership, some partners enjoy limited liability (silent partners) although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. This requires no minimum share capital. A limited partnership must be registered with the appropriate state or territory.

Cooperatives

A cooperative is a registered legal entity which is owned and controlled by its members, who have equal voting rights. Shareholders, directors, managers and employees have no responsibility for debts of the cooperative unless incurred through recklessness, negligence or fraud. A cooperative can have no fewer than five shareholders.

Other organizational types

NL (No liability). This is a special structure for mining companies that do not have a right to call up the unpaid issue price of shares.

Incorporated Limited Partnerships (ILPs). This is a type of limited partnership structure that can be used for venture capital purposes.

Foreign Hybrid. These are foreign entities that are taxed as partnerships in their country of formation that were previously taxed as companies in Australia. These entities are now taxed (since 2002-03) as partnerships in Australia (e.g., UK LLPs and US LLCs).

Branches and representative offices

Non-Australian companies are entitled to establish a branch or a representative office in Australia. A branch's activities are subject to Australian company law, although it is considered part of the company's head office and therefore not a separate legal entity. Branches require no minimum share capital. To open a branch a company must file a number of documents, including head office accounts.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must be incorporated in Australia, or have its centre of management or controlling shareholders located in Australia.

Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (AUD) accounts outside Australia and foreign currency accounts both within and outside Australia.

Non-residents are permitted to hold local currency and foreign currency accounts in Australia.

All local currency accounts are fully convertible into foreign currency via a licensed dealer.

Anti-money laundering and counter-terrorist financing rules

- Account opening procedures require formal identification of the account holder.
- Financial institutions must apply a risk-sensitive approach in verifying a customer's identify.
- The customer's identity must be verified before providing a service designated within the 2006 Anti-Money Laundering and Counter-Terrorism Financing Act (excepting certain gambling services), unless the customer is low-risk and was a customer before December 12, 2007. If these conditions are satisfied the customer's identity must be verified only if an obligation to report a suspicious matter arises.
- Designated services are defined widely within the 2006 Act and include providing any bank, building society or credit account, making a loan, supplying goods by way of hire purchase, issuing a traveller's cheque, issuing a life policy, or exchanging currency.
- Financial institutions must conduct ongoing due diligence assessments of the money laundering and terrorism financing risk posed by the customer.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at August 2009.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

Under Australian law, most banking and financial services are exempt from Goods and Services Tax (GST). In particular, bank account charges are input taxed (i.e., exempt).

Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for cashless payments by value. They can be initiated using Internet and other electronic banking facilities. Non-urgent, direct credit transfers are increasingly the preferred payment method used to make payroll payments, though a number of enterprises use cheques to pay employees. Both non-urgent credit transfers and cheques are also common methods of payment for business-to-business transactions. Card payments are the most popular method of cashless payments by volume and are frequently used for consumer transactions, with debit cards equally as popular as credit cards. Pre-authorized direct debits are used primarily by utility and insurance companies to collect domestic payments, as well as for the collection of mortgage payments and superannuation contributions. Cheque usage has been declining in recent years.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2008/2007	Traffic (value) (AUD billion)		% change 2008/2007
	2007	2008		2007	2008	
Cheques	411.6	373.5	– 9.3	1,799.4	1,618.8	– 10.0
Low-value credit transfers	1,434.9	1,533.0	8.2	6,534.1	7,037.3	7.7
Direct debits	560.1	605.4	8.1	4,706.0	5,021.8	6.7
Debit cards*	1,483.3	1,756.4	18.4	101.3	121.6	20.0
Credit/charge cards	1,389.1	1,454.0	4.7	204.8	220.2	7.5
Total	**5,278.9**	**5,742.3**	**8.8**	**13,345.6**	**14,019.7**	**5.1**

* Excluding ATM cash withdrawals.

Source: Reserve Bank of Australia.

International Payments

International payments are processed through same-bank networks or by using traditional correspondent banking techniques. All large banks have direct SWIFT connections.

Payment Processing Times

Transactions processed (AUD-denominated)	Value dating rules	Cut-off time(s) in local Australian Eastern Standard Time (AEST)
High-value and urgent domestic transfers	Settlement in real time with immediate finality	18:05 AEST
Non-urgent, low-value domestic consumer payments	Payments are settled on a next-day basis	Payments need to be submitted by close of business for settlement the next day. Cheques can take 3–10 days to clear.

Central Bank Reporting

The Australian Bureau of Statistics (ABS) collates balance of payments statistics from the responses to a number of quarterly and annual surveys covering international trade and different forms of investment activity.

The ABS currently requests approximately 1,000 resident companies, which have the largest number of transactions with non-resident entities, to complete surveys on the nature of their transactions every quarter, while the remaining companies that have transactions with non-resident entities are surveyed annually. Approximately 1,600 resident companies are surveyed every quarter on their international trade in services.

Only those companies contacted by the ABS are required to complete a survey.

Exchange Arrangements and Controls

Controls usually apply to capital transactions, and the relevant Australian authorities are to be notified of all securities transactions.

Sectors subject to foreign investment restrictions include banking, real estate, broadcasting, newspapers, telecommunications, civil aviation and shipping.

Australian financial services licence holders are permitted to perform foreign exchange transactions on behalf of a resident, unless the transaction is settled immediately or the resident either has its own financial company or is dealing via its own account.

Cash and Liquidity Management

Australia is not used as a location for multinational companies to carry out their international cash management. Australian companies seek to manage cash as efficiently as possible on a domestic basis.

Physical Cash Concentration

Physical cash concentration is available from selected large Australian and international banks. Resident and non-resident bank accounts cannot participate in the same domestic cash concentration structure.

Cross-border physical cash concentration is not practised.

Notional Cash Pooling

Notional cash pooling is available from most large Australian and international banks. Resident and non-resident companies cannot participate in the same domestic notional cash pooling structure.

Cross-border notional cash pooling is not practised.

Short-term Investment

Bank instruments

Interest-bearing current accounts are generally available. Banks offer time deposits in a range of currencies for terms from one week to over a year. Banks also issue fixed-rate certificates of deposit (CDs), usually for terms ranging from one to six months.

Non-bank instruments

Some domestic companies issue commercial paper. The maximum maturity of the paper is usually between one week and six months.

The Reserve Bank of Australia issues Treasury bills, as needed, on behalf of the Australian Office of Financial Management.

Australian companies have access to managed funds on an increasing basis.

Short-term Borrowing

Bank

Overdrafts, bank lines of credit and bank loans are usually all available in Australia to both resident and non-resident companies. Banks will usually charge a floating rate of interest. Other commitment and arrangement fees will also be charged.

Non-bank

Large public and private entities issue commercial paper into the domestic market. Issues require a credit rating, and are offered in units from between AUD 100,000 and one million.

Trade bills are commonly discounted, and factoring (generally undisclosed) is available.

Larger companies primarily use bank bills to raise short-term funds, usually for seven days up to six months. Most bills have a one-month maturity.

Inter-company and intra-group borrowing is common.

Taxation

Corporate Taxation

- Only the federal government taxes corporate income. There are no state or municipal taxes on corporate income. Corporate tax is levied at the rate of 30%.
- Companies' dividends carry franking credits reflecting corporate tax paid. Domestic shareholders receive an imputation credit. Non-resident shareholders are exempt from withholding tax on franked dividends.
- Foreign-owned branches' attributable income is taxed at the same rate.
- Tax losses can be carried forward indefinitely. Losses cannot be carried back.
- Foreign income tax offsets may be available for income tax paid by an Australian taxpayer in a foreign jurisdiction.
- Distributions declared to be conduit foreign income will be able to flow through Australian corporate entities to non-residents free of Australian withholding tax.
- On July 1, 2008, the foreign tax credit (FTC) system was replaced with the foreign income tax offset (FITO) rules, whereby taxpayers are no longer required to separate assessable foreign income amounts into separate classes. The rules allow taxpayers to claim FITO for specific assessable income on which foreign income tax has been paid. Carry forward of excess FITOs has been removed and any FITOs not used in a particular income year are lost. Transitional rules allow taxpayers to use the balance of FTCs, as at July 1, 2008, over the first five years under the new FITO rules.
- An "early stage venture capital limited partnership" (ESVCLP) investment vehicle will provide flow-through tax treatment to domestic and foreign partners, with the income (both revenue and capital) received by the partners being exempt from tax. As the income will be exempt, the investor will not be able to deduct investment losses.
- The Taxation of Financial Arrangement (TOFA) Act 2008 (the Act) was enacted on March 26, 2009. The Act defines what a financial arrangement is, and sets out the methods under which gains and losses from financial arrangements are brought in to account for tax purposes. The methods

– accruals, realization, fair value, retranslation, hedging and financial reports – determine the timing of taxable events in respect of all financial arrangements. The Act also effectively removes the capital/revenue distinction for most financial arrangements by treating the gains and losses on revenue account, except where specific rules apply. TOFA has an optional start date of July 1, 2009, and a mandatory start date of July 1, 2010.

Advance Tax Ruling Availability

- Companies can ask the Australian Taxation Office (ATO) for a private binding ruling to agree a position on any particular issue.

Withholding Tax (subject to tax treaties and other exemptions)

Payments to	Interest	Dividends	Royalties	Other income
Resident companies	Nil	Nil	Nil	N/A
Non-resident companies	10%	30%*	30%*	N/A

*Reduced to 15% for dividends and 10% for royalties under most tax treaties.

Capital Gains Tax

- Capital gains are taxed along with the company's income at 30%.
- Indexation of the asset's cost since the acquisition was allowed up to September 1999.
- From December 12, 2006, a capital gain or loss made by a foreign resident will only be subject to capital gains tax (CGT) if it relates to limited types of Australian assets, such as real property and business assets of an Australian branch.

Stamp Duty

- All states and territories impose stamp duty on real estate sales. The laws and rates of duty differ for each state and territory. The Australian Capital Territory (ACT) also imposes conveyance rates of duty on certain long-term leases of real estate located in the ACT.

Thin Capitalization

- Interest expense is not deductible where borrowing exceeds the safe harbour level. For standard companies, this amount is 75% of the adjusted assets. For financial institutions, it is 95% of the adjusted assets. The safe harbour for banks is based on regulated capital levels.
- The safe harbour level can be exceeded if the company can justify a higher debt-to-equity ratio on an arm's length test.

Transfer Pricing

- The ATO has a suite of transfer pricing rulings covering documentation requirements, transfer pricing methods and certain specific issues. In the main, the rulings in relation to transfer pricing methods adopt the Organisation for Economic Co-Operation and Development's (OECD) transfer pricing guidelines.
- The ATO encourages multinational companies to make advanced pricing arrangements setting out future cross-border dealings with related parties.
- Australian taxpayers have to provide in their tax returns details of cross-border dealings with related parties where such dealings are valued at more than AUD 1 million.

Sales Taxes / VAT

- The federal government levies a goods and services tax (GST) at 10%. GST is a value-added tax applicable at all levels of manufacture and marketing. Basic foods, exports, and medical and educational supplies are, in general, GST-free (zero-rated). Most financial services and residential rents are input taxed (exempt).
- Entities making input taxed supplies generally incur a restriction on the recoverability of GST incurred in relation to making those supplies. Financial suppliers can obtain a Reduced Input Tax Credit (equal to 75% of the GST incurred) on certain purchased supplies.

Payroll and Social Security Taxes

- States and territories apply different payroll taxes (5.05–6.85%) on employers.
- There are exemptions for employers with smaller payrolls.
- Federal law requires employers to contribute 9% of an employee's income to a registered pension fund retirement savings account for employees.
- Most employers are required to take out a workers' compensation insurance policy with the premium calculated based on the "wages" paid multiplied by an industry rate based on the operations of the employer. The average industry rate is 2–3%.
- There are no social security taxes.

Tax Issues with Notional Pooling

- Notional pooling or sweeping can be used in Australia.
- Interest withholding tax at 10% will apply to interest paid by the Australian borrower to non-resident companies.

Tax Issues with Cash Concentration and Zero / Target / Threshold Balancing

- See above – similar to notional pooling.

Research and Development (R&D) Tax Concession

- The R&D Tax Concession Scheme enables eligible companies to claim a basic tax deduction of up to 125% of qualifying expenditure on eligible R&D activities when filing their annual tax return. In addition, under certain circumstances, companies may claim a 175% premium deduction for additional investment in R&D and small companies may elect to claim the R&D tax concession as an offset or rebate to enable them to "cash out" the deduction.

Insurance Premium Tax

- States and territories levy duties on insurance premiums.

Import and Excise Duties

- All goods imported into Australia are subject to import (customs) duties. The general rate of customs duty is 5%. Concessional and preferential rates apply in some cases.
- Excise duty applies to petroleum products, alcohol and tobacco.

Local Municipal Taxes

- Charges are based on the unimproved value of land.

Luxury Car Tax

- The federal government taxes cars at 33% of their value exceeding the luxury automobile threshold.

Other Taxes

- Employers who provide non-cash "fringe benefits" to employees are required to pay tax at 46.5% of the value of the benefit provided unless an exemption applies.

All tax information supplied by Deloitte LLP (www.deloitte.com). Data as at April 1, 2009.

Report prepared September 2009.

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