

GREATER CERTAINTY FOR SOVEREIGN INVESTMENTS

The Assistant Treasurer, Senator Nick Sherry, today announced that the Rudd Government will introduce amendments to the income tax law to formalise the existing tax practice of exempting certain income earned by foreign governments.

These changes will provide greater certainty to foreign governments investing in Australia as to the income tax treatment of 'passive' investments. At present, such income is not taxed because of the doctrine of sovereign immunity.

This doctrine exempts a foreign government's income from passive portfolio investments such as interest, dividends and managed funds distributions. Income from commercial activities will continue to be subject to Australian tax.

The proposed changes will codify this existing practice.

"During this time of global recession, we need to be providing as much certainty for capital investors as we can, and this tax measure will do just that," said the Assistant Treasurer.

"Codifying the existing exemptions will give foreign governments certainty about the taxation treatment of their investments in Australia."

"This measure will not cost a cent, while making Australia an even more attractive and certain investment destination and contributing to Australia's financial centre hub strategy."

"These changes have a long history, but the Government has taken the decision to act now. I intend to release draft legislation for public consultation as soon as practicable," the Assistant Treasurer said.

This is a bipartisan measure that was originally proposed by the former Government in 2005.

CANBERRA
20 August 2009