



MEDIA RELEASE

Budget break on IWT - eventually

11 May 2010

Tonight's Budget contains a welcome commitment by the Government to phase-out interest withholding tax on interest paid by banks on foreign borrowings – but not for three years.

This was a key recommendation of the Australian Financial Centre Forum report (Johnson Report) into building Australia as a financial centre. It will remove an impediment to the efficient raising of capital off-shore and increase Australia's competitiveness in capital markets.

However, the Government should move more quickly to send a positive message about its serious intent to promote Australia as a financial centre. Likewise, quick action is needed to remove the LIBOR cap on deductibility for interest paid on parent funding – the case for which has already been made.

The establishment of a Financial Centre Task Force led by Mark Johnson will maintain momentum to the efforts of government and industry to enhance Australia's standing as a financial centre. A working party to progress the concept of an Asia Region Funds Passport is a useful initiative in which AFMA will participate.

A marginal adjustment to the allowable interest cost for capital protected lending (1% above the variable housing loan rate) is of some assistance but falls well short of giving investors a fair tax break on the higher interest they pay for the security of a capital protected loan to invest in shares. This leaves a bias in the tax system that pushes investors towards investments that carry risk.

Notes for Editors:

The Australian Financial Markets Association (AFMA) is the leading industry association promoting efficiency, integrity and professionalism in Australia's financial markets and provides leadership in advancing the interests of all market participants. These markets are an integral feature of the economy and perform the vital function of facilitating the efficient use of capital and management of risk. Market participants perform a range of important roles within these markets, including financial intermediation and market making.

AFMA represents over 130 members, including Australian and international banks, leading brokers, securities companies, state government treasury corporations, fund managers, traders in electricity and other specialised markets and industry service providers.

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